Economic recovery weakened in July with the EAI contracting by 10.2 percent yoy compared to a 7.6 percent yoy decline in June. Services (excluding trade) were most impacted (22 percent yoy decline), compared to industry (2.3 percent yoy decline) and manufacturing (3.7 percent yoy decline). Industry benefited from a 1.5 percent yoy growth in mining due to a low base effect last year. On the demand side, almost flat real wages, weaker transfers from abroad, virus-related restrictions, lower cashflows and liquidity of firms and the expectation of extended time needed to return to normalcy weighed on the recovery. Year-to-July, the EAI contracted by 5.7 percent yoy with sharp declines in private consumption and investment offset in part by higher government recurrent spending and import compression. Recovery in the rest of the year is uncertain and contingent on COVID-19 infection rates continuing to decelerate.

The real estate market recovered slightly in July. The decline in the number of apartment transactions in Yerevan moderated to 12 percent yoy in July as compared to a more than 60 percent yoy decline in Q2 2020. This was supported by a 3 percent month over month increase in the stock of mortgage loans in July. On the other hand, the growth of apartment prices moderated in July but prices remain 7 percent above July 2019 levels.

Mobility improved in August and early September as the pace of infections slowed. Mobility indicators for Yerevan edged up to about 80 percent of pre-COVID levels in early September as compared to 65 percent in July. Daily test positivity rate declined from 12 percent on average in August to 6.5 percent on average in the first half of September.

Inflation slightly increased to 1.8 percent yoy in August but remains below the CBA target band (4 +/- 1.5 percent) triggering a further reduction in the monetary policy rate. Food prices increased by 1.6 percent yoy while prices of alcoholic beverages and cigarettes grew by 10 percent yoy. Transport prices continued to recover, registering a 1.7 percent yoy reduction in August as compared to 3.6 percent drop in July, driven by the pick-up in international oil prices and in mobility. In response, on September 15, 2020, the Central Bank of Armenia lowered the policy rate by a further 25 basis points to 4.25 percent.

After recovering since April, the contraction in exports and imports intensified in July. Exports fell by 6 percent yoy in July driven by a 50 percent yoy decrease in export of precious and semi-precious stones and a 9 percent yoy decline in food product exports. Imports declined more sharply, by 18 percent yoy in July, with declining imports across the board, but especially imports of vehicles (with 86 percent yoy decline) due to a high base effect from 2019. With imports declining faster, the trade deficit fell by USD 70 million yoy in July and by USD 290 million in the year to July. This was partly offset by a continued decline in inflow of money transfers (a proxy for remittances) by 6 percent yoy in July and lower services receipts, with tourist inflows yet to increase despite a limited re-launch of international flights in August. At around USD 2.7 billion at the end of August, international reserves provide cover for around 5.3 months of imports. The dram/dollar exchange rate has remained largely stable, fluctuating within 1 percentage point during the last few weeks.

The budget registered an AMD 56 billion deficit in July, doubling the deficit in first seven months of 2020 to AMD 105 billion (1.7 percent of annual projected GDP). The sharp increase in the deficit in July was driven by an increase in spending (23 percent yoy), particularly for social payments and grants. Capital spending increased by 11 percent yoy but it remains well below the annual plan. On the other hand, revenues declined by 7 percent yoy in July, mostly driven by lower customs duty and profit taxes. Encouragingly, income tax collection was up 2 percent yoy in July, suggesting a relatively strong employment recovery. The deficit in July was fully financed by increased domestic borrowing. Government debt at the end of July reached 58.7 percent of projected annual GDP.

Financial stability indicators slightly weakened in July but remain at manageable levels. Non-performing loans (NPLs) increased to 6.2 percent of gross loans, up 0.7 percentage points yoy but still below historical averages. However, NPLs could increase in the months ahead as the moratoria on debt servicing to borrowers granted by commercial banks expires. Profitability fell slightly in June and July, but banks remain well capitalized. Credit grew by 3 percent in July over June, mostly due to increased credit to industry and construction sectors. Deposits also grew but at slower rate (1.7 percent over June). Dollarization remains high, with around 50 percent of credits denominated in foreign currency.
Figure 1. The economic recovery slowed in July
(Economic activity index, yoy change, in %)

Source: Statistical Committee of RA

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

Source: CBA

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

Source: Statistical Committee of RA

Figure 4. The budget deficit significantly increased in July due to higher spending
(in AMD billion)

Source: MOF

Figure 5. The real estate market continues to recover.
(in ths. AMD per sqm)

Source: Cadaster Committee

Figure 6: The dram remained stable against the USD, but depreciated against the Euro
(index, March 2, 2020=100)

Source: CBA