The economic contraction deepened in November (10.3 yoy decline in EAI) following an already weak performance in October (8.7 percent yoy decline). Economic activity was weighed down by high COVID-19 infection rates and political instability following the ceasefire agreed between Armenia and Azerbaijan, brokered by Russia, on November 10th. Trade (22 percent yoy decline) and other non-trade services (18.4 percent yoy decline) were the key drivers of weak economic performance. Industrial output registered the largest contraction since April, contracting by 6 percent yoy. Construction was a bright spot, growing at 2 percent yoy in November picking up from 0.3 percent yoy growth in October. Year-to-November, the EAI was down by 7.2 percent. The GDP contraction forecast for 2020 has been revised downwards to -8 percent from -6.3 percent forecasted in September 2020.

Mobility in Yerevan fell post the long new year holiday period but has since recovered, as the COVID-19 outbreak shows signs of easing. Mobility in Yerevan edged up to 68 percent of pre-COVID levels in the second week of January compared to 62 percent in early December, coinciding with a drop in active COVID-19 infections from 20,000 cases in mid-December to 8,000 in mid-January 2021. COVID-19 testing also fell in January compared with December. The daily positivity rate showed significant decline, from 28 percent average in December to 18 percent average in the first ten days of January. The government extended COVID-19 restrictions by six months, till 11 of July, but the rules do not entail strict restrictions on mobility.

Inflation increased significantly in December to 3.7 percent yoy from 1.6 percent yoy in November. The monthly jump was the highest recorded since March 2018, though it remains well within the CBA inflation target band. The increase was driven by a 5 percent yoy increase in both food (the main driver) and transport prices. This, in turn, reflects rising international food prices and exchange rate depreciation. The Central Bank of Armenia (CBA) increased the policy rate by 100 basis points on December 15, raising it to 5.25 percent.

Exports and imports of goods contracted sharply in November. Exports were down 20 percent yoy driven by lower exports of food products. Imports contracted by 29 percent yoy, the largest decline in 2020, mostly due to a base effect related to high import of vehicles at the end of 2019. With imports contracting more than exports, the trade deficit cut by 37 percent, yoy.

Armenia’s current account deficit also narrowed, with a reduction in the trade deficit offsetting a deterioration in the income account. The current account deficit reached USD 422 million, as of end-September, which is USD 31 million lower than a year ago. This was driven by a USD 152 million lower deficit in the goods and services account, which was partially offset by a sharp deterioration in the income account driven by a 12 percent yoy contraction in remittances. On the financing side, FDI inflows were down 40 percent yoy as of end-September. Higher public sector borrowing helped finance a major part of the current account deficit.

The dram remains under pressure. The dram had depreciated by 8 percent against the USD as of early January 2021 compared to the level at the start of the escalation of the conflict in end-September 2020, mostly reflecting a shift away from local currency due to heightened uncertainty. This has prompted intervention from the CBA to smooth exchange rate fluctuations. Even so, reserves increased in December by USD336 million, providing 5.1 months of import cover, reflecting inflow of grants from EU and the Pan-Armenian fund as well as proceeds from the IMF Stand-By Facility (USD37 million).

The budget registered an AMD36 billion deficit in November, slightly below its level in October. Revenues were up 8 percent as a 7 percent yoy decline in tax collection was offset by an increase in grants from the EU. Expenditures were up 19 percent yoy in November driven by increase in defense and health spending. The year-to-November deficit reached 4 percent of annual GDP projection, up from 3.4 percent in October. This is significantly below the Ministry of Finance (MOF) latest estimate of a budget deficit of 7 percent of GDP for the year, largely due to under-spending.

Credit (adjusted for exchange rate changes) contracted by 0.6 percent month-on-month in November while deposits contracted by 0.9 percent. Credit contraction was driven by decline in dram-denominated credit while both dram and FX denominated deposits contracted. The credit portfolio weakened further, with NPLs edging up to 6.9 percent of gross loans.

Prepared by: Armineh Manookian, Economist, amanookian@worldbank.org
Economic contraction continued in November (Economic activity index, yoy change, in %)

Figure 1.

Inflation jumped in December but remains within CBA target range (CPI Inflation, y-o-y change, in %)

Figure 2.

The trade deficit narrowed as imports contracted more than exports (in USD million)

Figure 3.

The budget deficit increased further in November but remains below projections (in AMD billion)

Figure 4.

International reserves picked up in December (in USD million)

Figure 3.

The dram continues to be under pressure especially following the ceasefire (index, March 2, 2020=100)

Figure 4.