COVID-19 has brought economic activity to a halt. Following 9 percent growth in the first two months of the year, the Index of Economic Activity shrank by 5 percent year-on-year (yoy) in March as a State of Emergency was imposed to contain the outbreak. Construction sector output contracted by 26 percent yoy, followed by trade and other services, which saw declines of 10 and 5 percent, respectively. Industrial output reduced by only 2 percent, benefiting from continued expansion in mining. The March outturn brought down the economic growth rate in the first quarter to 4 percent yoy, aided by a 4.5 percent expansion in the agriculture sector output, the highest quarterly growth in the sector since 2016. Mobility data (based on the Yandex self-isolation index) show further economic deceleration in the first half of April, followed by a gradual pick-up as restrictions were gradually removed. Still, in early May 2020, mobility in Yerevan stood at around 30 percent below the levels observed prior to the pandemic. On the demand side, the containment measures have significantly affected consumption, the key driver of recent growth. Lower net transfers from abroad (by 33 percent yoy drop in March) also drove down private consumption, offsetting the 9 percent increase in real wages (with higher growth in public sector than private), and a 11 percent yoy higher public consumption in the first quarter of 2020. Private consumption and investment are likely to remain suppressed in the coming months, with Armenia projected to register a contraction in GDP for the year.

**Prices increased by 0.9 percent yoy in April, after declining in the previous two months.** The largest increase was registered in the prices of alcoholic beverages and tobacco products (by 11 percent yoy), with contribution also from health, clothing and footwear. The slight pick-up in inflation likely reflects pass-through from a weaker exchange rate in March and strains in the supply chains, as the COVID-19 pandemic disturbed transport networks. In view of the low inflationary pressures and weakening demand due to COVID-19, the Board of Central Bank of Armenia (CBA) cut the policy rate twice (on March 17 and April 28) by a cumulative 50 basis point to 5 percent.

**Foreign trade contracted sharply.** Exports declined by 17 percent yoy in March, with almost all product groups showing reductions. The only exceptions to this were mineral exports, mostly copper, which increased by 40 percent in volume terms and by 15 percent increase in value, as well as agricultural products which increased by 19 percent yoy (at the same time, exports of processed food declined by one third). Imports declined by 15 percent yoy in March; among importing items only food products showed an increase in March. Still, the trade balance improved by 13 percent in March. On cumulative basis, exports were flat in the first quarter, while import shrank by 6 percent.

**Other current account inflows also declined.** The number of tourist arrivals shrank by 15 percent in the first quarter, while net money transfers from abroad declined by 33 percent.

**The volatility of the dram has increased.** The dram lost 5.5 percent of its value in March as the COVID-19 pandemic. The drop in demand for imports as well as CBA intervention on the FX market helped the dram recover in April; however, it again depreciated by 1.6 percent in the first ten days of May. International reserves declined by US$168 million in March-April but at US$2.5 billion cover more than 5 months of imports.

**The budget was balanced in March, but is expected to slip to a deficit to 5 percent of GDP in 2020.** In the first quarter of 2020 tax revenues overperformed forecasts by AMD 9 billion while lower current spending led to under-execution of expenditures by AMD 67 billion, resulting in a budget surplus of AMD 39 billion, compared to AMD 40 billion planned deficit. The Budget deficit for 2020 was amended from 2.3 percent of GDP to 5 percent of GDP to reflect expected lower tax collection and reallocation of spending to mitigate the impact of COVID-19. The government approved 17 crisis mitigation packages, injecting AMD 70 billion (about US$ 144 million) into the economy during the April 1-May 10 period. The authorities reached a Staff-level agreement with the IMF on the completion of the 2nd review of the Stand-by Arrangement and its augmentation, including its conversion for budget support use.

**The banking sector entered the crisis in a sound shape.** As of end-March, the capital adequacy ratio was 17 percent, non-performing loans were 5.5 of gross loans and liquidity was high. Most of the banks offered temporary (2-3 months) moratoria on debt servicing to affected businesses and households. Still, a prolonged crisis, especially if accompanied by large exchange rate depreciation, could weaken banks’ balance sheets.
Figure 1. The economy shrunk sharply in March (yoy change, in %)

Source: Statistical Committee of RA

Figure 2. Prices saw a slight increase in April and the policy rate was cut further (in %)

Source: CBA

Figure 3. Trade deficit narrowed in Q1 on the back of shrinking imports (in USD million)

Source: Statistical Committee of RA

Figure 4. Budget ran a surplus in the first quarter (in AMD million)

Source: MOF

Figure 5. International reserves declined in 2020 but continue to provide reasonable cover (in USD million)

Source: CBA

Figure 6. Depreciation pressures remerged in early May (index, March 2, 2020=100)

Source: CBA

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