Economic activity continued to recover in June, with the Economic Activity Index (EAI) declining by 7.5 percent on yoy basis as compared to a 12.8 percent decline in May. The moderate month on month pickup was broad-based, with construction, services (excluding trade), retail and industrial output all improving from May. Nevertheless, all sectors remained in negative growth territory in June, with construction the most severely impacted (down by 23 percent yoy), followed by retail trade (by 18 percent yoy), services excluding trade (by 16 percent yoy) and industrial output (by 2.4 percent yoy).

With another month of yoy contraction, the year to date EAI shows further decline from 3.9 percent yoy as at end-May to 4.7 percent as at end-June. On cumulative basis, industry and agriculture grew by 1.5 percent and 1.8 percent yoy respectively while services, excluding trade, contracted by 6.4 percent yoy while retail trade was down 11.1 percent yoy. Industry growth was driven by a 24 percent increase in mining output, while manufacturing contracted by 3.6 percent, driven by lower output of tobacco and beverages compared with the first half of last year. On the demand side, consumption is expected to have moderated due to lower net money transfers from abroad, decreased private sector real wages and weak sentiments (micro businesses surveyed by the World Bank in June expect sales to return to normal in 11 months).

Other indicators also reflect a gradual recovery, amidst signs of slowdown in COVID-19 infections. While overall case numbers remain high, the number of new COVID-19 has declined as has the test positivity rate (from an average of over 30 percent in early July to 17 percent in the first week of August). At the same time, mobility in Yerevan edged up to 66 percent of pre-COVID levels (February) in early August, from 64 percent in June and 28 percent during full lockdown period in April.

Inflation moderated to 1.5 percent in July yoy, reversing a slight upward trend in previous months. This was driven by moderating food prices, with food price inflation slowing to 1.2 percent in July as compared to 2 percent in June. Transport and communication prices remained flat in July, while prices of alcoholic beverages and cigarettes rose by 11 percent yoy, due to increase in excise of alcoholic beverages effective January 2020, contributing a third of total inflation. Even as inflation remained below the target band, the CBA left the policy rate unchanged at 4.5 percent in end-July, after lowering it on two occasions since March 2020 by a cumulative 75 basis points.

Foreign trade also picked-up. Exports recovered strongly in June, reaching their 2019 level compared to a 30 percent yoy drop in April 2020. Higher export of minerals and of agricultural products contributed to the rebound in June. The recovery in imports was more moderate, with import of goods still down by 15 percent yoy in June driven by a 70 percent reduction of import of vehicles, which had increased significantly in 2019 in anticipation of an increase of customs duty on vehicles in 2020. As a result, the trade deficit declined from US$206 million in June last year to US$142 million in June 2020. After collapsing in April and May, remittances may have recovered slightly recently while tourism exports remain depressed as restrictions on international travel remain. International reserves were US$2.6 billion at end-June, slightly down from May but still providing cover for around five months of projected 2020 imports. The exchange rate has been relatively stable at around 485AMD/US$ since mid-June, or around 1.5 percent weaker compared to the pre-covid period.

The budget registered an AMD 23 billion deficit in June, bringing the cumulative budget deficit to AMD 49 billion, less than one percent of projected GDP. Spending increased sharply in June, with current spending increasing by 22 percent yoy (with a 30 percent share of social allowances). Capital spending increased by 30 percent yoy albeit from a low base. Weak economic activity was reflected in a 30 percent yoy decline in tax revenues in June. Year to date revenues were approximately 11 percent less than the original budget plan, but in line with the revised budget plan. The government envisages a widening of the fiscal deficit in 2020, with a planned annual deficit of 5.6 percent of GDP reflecting a sharp decline in revenues. In July, the government approved the 2021-23 Medium-Term Expenditure Framework and draft 2021 Budget, which anticipates an economic recovery and reduction of budget deficit to 3 percent of GDP in 2021.

Financial stability indicators for the banking system remained stable. The capital adequacy ratio improved to 17.4 percent by end-June, while non-performing loans increased marginally to 5.7 percent. Credit growth moderated, but at around 17 percent yoy remains robust.
Figure 1. Economic activity index continues to recover.  
(Economic activity index, y-o-y change, in %)  

Source: Statistical Committee of RA

Figure 2. Inflation moderated in July after a slight uptick in previous months  
(CPI inflation, y-o-y change, in %)  

Source: CBA

Figure 3: Trade deficit narrowed as exports remained flat, but imports declined sharply  
(in USD million)  

Source: Statistical Committee of RA

Figure 4. Budget deficit through June increased but remains below amended deficit plan  
(in AMD billion)  

Source: MOF

Figure 5. While NPL edged up slightly in June, capital adequacy improved  
(in percent)  

Source: CBA

Figure 6: The dram continues to be stable against the USD  
(index, March 2, 2020=100)  

Source: CBA

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