

- *Economic growth eased to 13.8 percent in November, mostly due to a slowdown in manufacturing activities.*
- *Inflation decelerated to 8.3 percent in December from 8.8 percent in November.*
- *Trade growth was robust, benefiting from the re-exportation of goods to Russia.*
- *The dram (AMD) was stable against the USD but strengthened vis-a-vis the rouble.*
- *The budget registered a 0.9 percent of GDP deficit in November, bringing the cumulative deficit to 1 percent of GDP in the year to date.*
- *Financial indicators improved in November.*

Growth eased in November. Economic activity grew by 13.8 percent (yoy) in real terms in November, compared to 17.5 percent in October. This was mostly explained by a 4 percent (yoy) contraction in manufacturing, resulting from 3 and 8 percent (yoy) declines in real production of food and alcoholic beverages, respectively. Mining grew by 4 percent (yoy) in November, slightly less than in October (6 percent). Growth in other sectors, including construction, trade and services remained robust, with double digit rates at 11, 22, 31 percent (yoy), respectively (Figure 1). On the demand side, private consumption was fueled by a 13 percent increase in real wages (particularly in the private sector) and an influx of money transfers from abroad. Investment and net exports also contributed to growth, albeit to a lesser extent.

The real estate market showed higher activity in November compared to October. The number of transacted and rented apartments in Yerevan increased by 18 and 5 percent (mom), respectively, although the volume of transactions was lower than in November 2021. The price of apartments in the center of Yerevan continued to increase in November, by 2 and 15 percent in mom and yoy terms respectively (Figure 2).

Inflation continued to decelerate in December. Year-on-year inflation in December eased to 8.3 percent from 8.8 percent in November, **bringing 2022 average inflation to 8.6 percent.** This was driven by a slowdown in the inflation of food and transportation to 10 and 6 percent (yoy), respectively. At 9.9 percent in November, core inflation was higher than headline inflation (at 8.8 percent), reflecting imported inflation. The CBA policy rate remained at its historically highest level of 10.75 percent (Figure 3).

In November 2022, export growth outpaced import growth (at 96 and 64 percent, respectively). The trade balance, however, deteriorated by 32 percent (yoy) in November given the 1.5-times larger import base. More than two thirds of the total export and

import increases in November were driven by trade in machines and instruments, transport vehicles, and precious stones, mostly due to the use of Armenia as a transit channel for re-exportation to Russia. On the other hand, export of agricultural products and minerals dropped by 10 and 4 percent (yoy), respectively, the latter due to lower international metal prices. Cumulatively, both exports and imports picked up by 75 and 64 percent (yoy), respectively, through November. Net money transfers grew by 257 percent in November (yoy), compared to 349 percent in October (Figure 4).

The dram (AMD) was relatively stable against the USD since early December, while appreciating by 13 percent against the ruble. As of January 9, 2023, the AMD was 18 percent stronger than the USD and 12 percent stronger than the ruble compared to one year ago yoy (Figure 5). According to preliminary data, international reserves at the end of 2022 recorded a new peak at USD 4.1 billion, or the equivalent of 5.5 months of import cover. That was USD 880 million higher than reserves at end-2021.

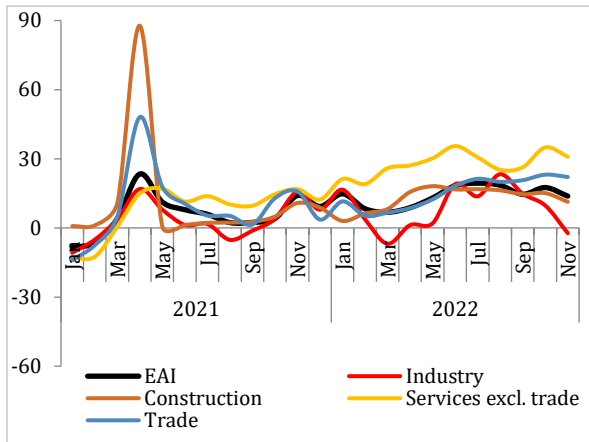
In November the budget registered the highest monthly deficit of the year: AMD 73 billion, (0.9 percent of annual GDP). Tax revenues grew by 17 percent (yoy) in nominal terms, mostly due to increases in VAT (up by 28 percent yoy). Income taxes also grew by 9 percent and had the second highest contribution in total tax increase. State duties was the only item which contracted (by 57 percent yoy), due to the temporary one-year suspension of the export duty on mining introduced in September 2021. Expenditures grew by 52 percent (yoy) in November, almost all driven by a sevenfold increase in capital expenditures. Cumulatively, the budget deficit reached AMD 86 billion for January–November (1 percent of annual projected GDP).

On December 8, the National Assembly approved the state budget for 2023, which foresees a 3.1 percent of GDP deficit (up from the 2.5 percent expected in 2022). The budget outlines an ambitious increase in capital expenditures to 5.9 percent of GDP.

Financial sector indicators remained healthy, and credit expanded again in November. FX-adjusted credit increased by 3.1 percent (mom) in November, after flat growth in the previous few months. Growth was driven mostly by increases in consumer loans. Meanwhile, FX-adjusted deposits grew by 2.5 percent (mom). Financial stability indicators in November showed an increase in capitalization (CAR at 20 percent), liquidity (liquid assets to total assets at 38 percent) and profitability (ROA at 4.2 percent) ratios. There was also a slight decline in the non-performing loans (NPL) to total gross loans ratio to 3.2 percent in November from 3.3 percent in October.

Figure 1. Except industry all sectors grew in double digit rates

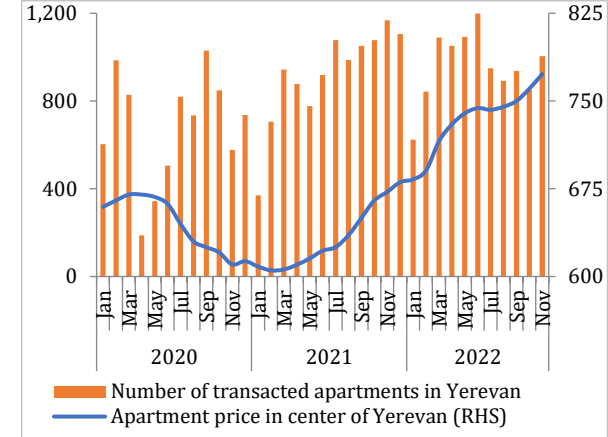
(Economic Activity Index, yoy change, in %)



Source: Statistical Committee of RA

Figure 2. The price of apartments in Yerevan continued to increase

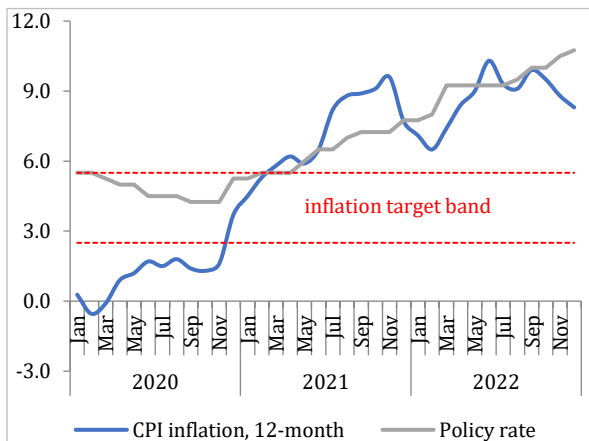
(Units) (ths. AMD, per sq meter)



Source: Cadaster Committee of RA

Figure 3. The inflation rate continued to decelerate

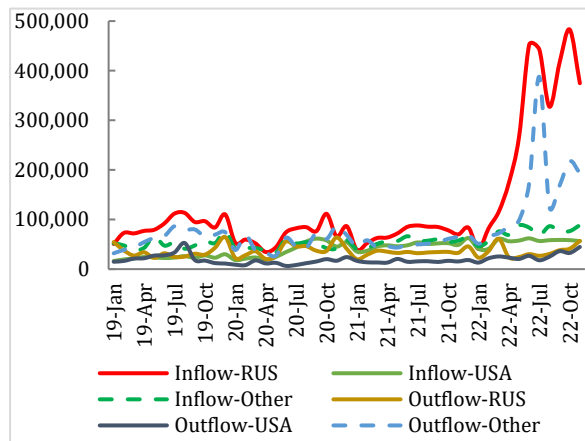
(CPI Inflation, yoy change, in %)



Source: CBA

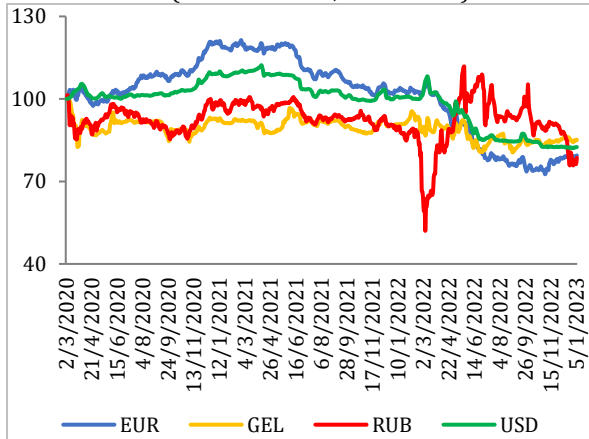
Figure 4. Money transfer inflows slowed down in November after a pickup in the previous two months.

(in USD)



Source: CBA

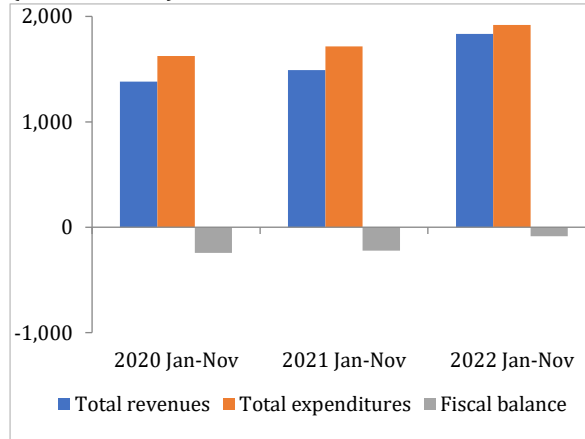
Figure 5. The dram was stable vis-à-vis the USD in December, but strengthened relative to the rouble (Index: March 2, 2020 = 100)



Source: CBA

Figure 6. The budget registered a deficit in November

(in AMD billion)



Source: MoF