- *Growth eased to 10.9 percent yoy cumulatively in January and February 2023.*
- *Headline inflation remained at 8.1 percent in February.*
- *Export growth continued to be exceptionally high and outpaced import growth.*
- *The AMD strengthened against the RUB, USD and EUR.*
- *The budget deficit for January 2023 registered its highest surplus in nominal terms compared to the same month in 2021 and 2022.*
- *Bank profitability declined, but financial sector indicators remained sound.*

Economic activity grew by 10.5 and 11.3 percent (yoy) in real terms in January and February 2023, respectively after growing by 12.6 percent in 2022. The main driver of growth in the first two months of 2023 remains non-trade services (which grew by 23.5 percent), followed by trade and construction (up by 18 and 13 percent yoy, respectively) (Figure 1). In the same period industry growth was muted at 1 percent (yoy). Detailed data for January indicates that the decline in industry was due to a contraction in mining and 'electricity and energy' production (down by 3.4 and 7.2 percent yoy, respectively). On the other hand, manufacturing grew by 7.3 percent, mainly due to a 64 percent growth in cigarette production. Textile production also grew by 70 percent (yoy), but from a low base, thus contributing only negligibly to total manufacturing growth. Metal product manufacturing also grew by 4 percent yoy, while mining contracted. On the demand side, economic activity was fueled by strong private consumption supported by a double-digit increase in real wages in the private sector and a seven-fold increase in transfers from Russia (yoy) in January, although these transfers were the lowest since June 2022 (Figure 2).

While real estate market transactions slowed in January, prices continued to rise. The number of transacted and rented apartments in Yerevan declined by 17 and 6 percent (yoy). However, the price of apartments in the center of Yerevan remained 15 percent higher in January (yoy).

Inflation remained flat in February at 8.1 percent, reflecting a slight increase in food inflation. This was offset by a slowdown in transport inflation, from 4.4 percent in January to 2.2 percent in February. At 8.4 percent, core inflation continued to outpace headline inflation, indicating import price inflation. At its March 14, 2023 Board meeting, the CBA decided to leave the policy rate unchanged at 10.75 percent (Figure 3).

In January 2023, export growth remained exceptionally high and outpaced import growth (at 130 and 73 percent, respectively). This resulted in a 10 percent improvement in the trade balance in January. The trends in merchandise export and import observed in 2022 continued into January 2023. Exports of vehicles and means of transportation surged, contributing 60 percent of total export growth. Machinery exports (up 10-fold) were the second contributor to export growth. These items were also the main contributors to import growth, accounting for three-quarters of the 73 percent import growth in January. On the export side, agricultural products (of vegetable origin) and mining contracted by 34 and 16 percent (yoy), respectively. Among minerals, the value of copper exports fell by 12 percent, despite a 3 percent increase in volume, due to lower international prices. Exports to Russia increased five-fold, with the share of exports to Russia rising from 27 percent in January 2022 to 41 percent in January 2023. Import growth was mainly driven by imports from the USA, the UAE, Georgia and Germany.

The dram (AMD) has appreciated against most currencies since mid-February 2023. Between mid-February and March 27th, the AMD appreciated most against the RUB, by 5 percent, and against the Euro and USD by 0.8 and 1.6 percent, respectively (Figure 4). International reserves declined by USD 154 million in February 2023 but remained 18 percent higher than the same month of the previous year, at USD 3.5 billion (Figure 5). Import coverage was reduced to 3.7 months, also reflecting the growing import basket.

The budget recorded a significant surplus in January 2023, due to a 15 percent increase in revenues. The surplus in January 2023 reached AMD 78 billion, up from AMD 61 billion in January of last year. VAT, income tax and turnover tax collections accounted for most of the increase, rising by 20, 8 and 35 percent (yoy) respectively, in nominal terms. Current expenditures increased by 11 percent (yoy) due to higher social spending and transfers to local governments. Capital expenditures in January 2023 were less than half of those in January 2022.

Banking sector performance was muted, and financial indicators remained sound. Credit increased by one percent (mom) and deposits declined by one percent, both adjusted for the exchange rate. The decline in deposits was driven by lower demand deposits of resident households. The share of non-performing loans (NPL) to total gross loans remained stable, at 2.8 percent in January 2023. The capital adequacy ratio decreased slightly to 19.9 percent, while remaining well above the minimum requirement of 12 percent. The banking system remained liquid, while profitability declined as return on assets decreased from 4.1 in December 2022 to 3.6 percent in January 2023.

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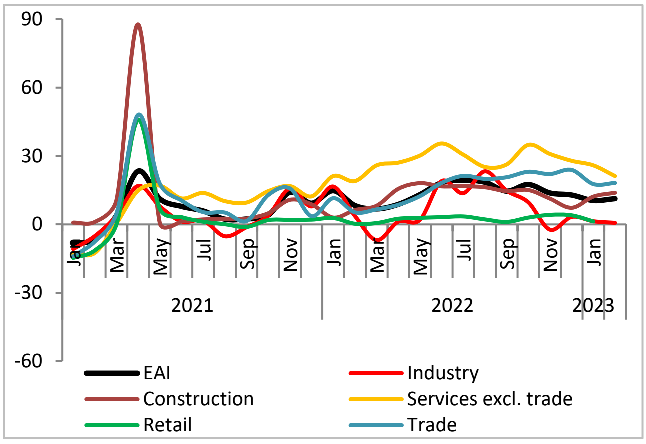
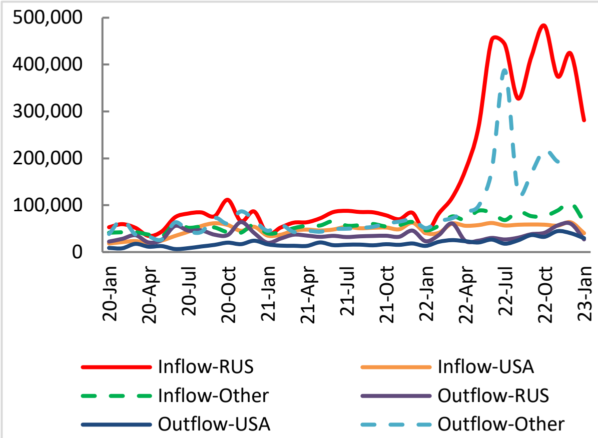
Figure 1. Services remain the fastest growing sector
(Economic Activity Index, yoy change, %)



Source: Statistical Committee of RA

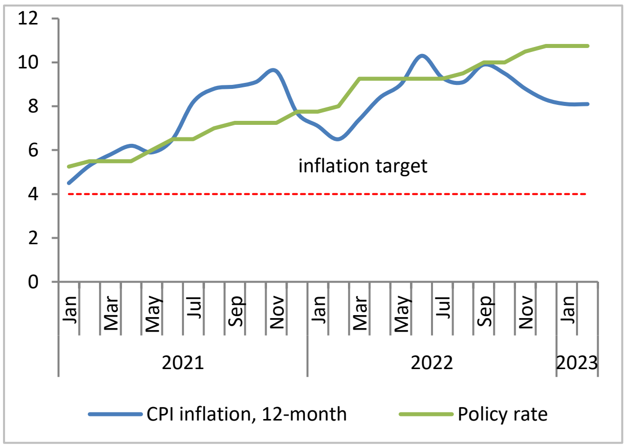
Figure 2. Money transfers growth (yoy) slowed down in January, but remained high
(USD thousand)



Source: CBA

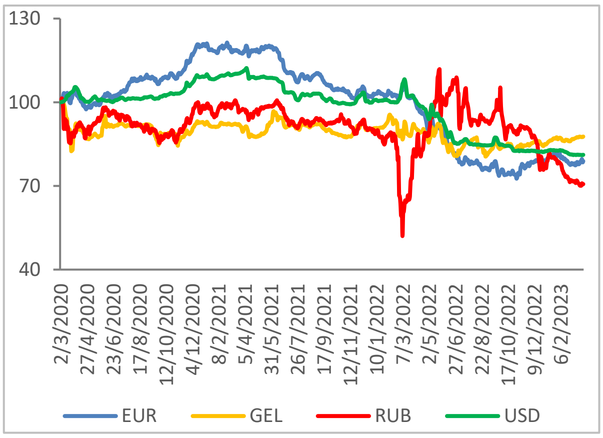
Figure 3. Headline inflation stabilized in January

(CPI inflation, yoy change, %)



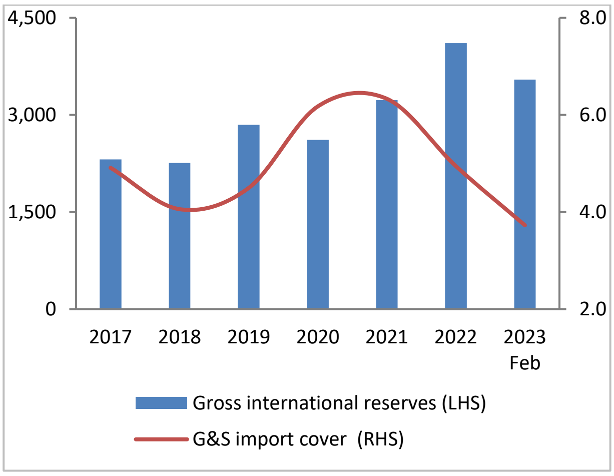
Source: CBA

Figure 4: Since mid-February the AMD strengthened against most of currencies
(Index: March 2, 2020 = 100)



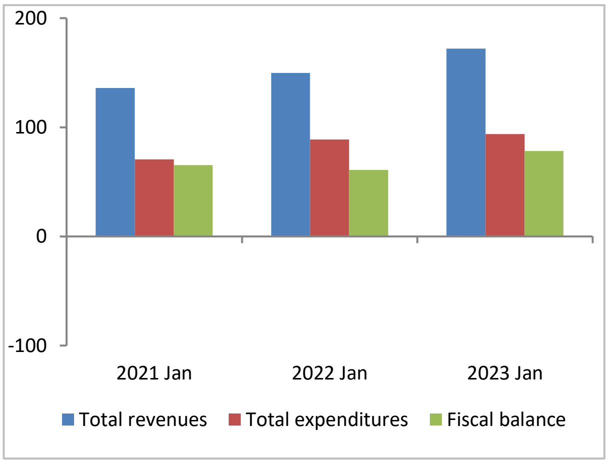
Source: CBA

Figure 5. International reserves declined in February for the second month in row
(USD million) (Months of imports)



Source: CBA

Figure 6. The January budget surplus was larger than in past years
(AMD billion)



Source: MoF