

Economic Development and Research Center



Monthly Economic Trends in Armenia

September 2005

The most recent monthly indicators available up to November 2005 are presented. The recent statistical data for GDP, Gross Production, State Budget and External Sector was available for January-July, whereas the data for financial, foreign exchange and consumer markets – for August.

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Summary of Key Macroeconomic Indicators

	2002	2003	2004	2002	2003	2004	2005
	annual indicators			January-July indicators			
Real sector							
GDP Per Capita (in US dollars)	739.6	874.4	1,106.7	306.8	358.2	443.3	618.7
GDP Real Growth (%)	13.2	14.0	10.1	9.4	14.9	9.3	11.6
Industry Real Growth (%)	13.9	15.6	2.1	11.9	18.1	3.9	5.8
Agriculture Real Growth (%)	3.8	4.2	14.5	-0.8	-0.3	10.8	14.1
Construction Real Growth (%)	41.5	45.5	13.4	34.1	55.0	12.1	29.7
Transport & Communications Real Growth (%)	-1.7	8.3	16.9	5.3	11.6	14.4	11.0
Trade Real Growth (%)	19.7	14.1	10.5	14.5	13.4	9.0	5.4
Services Real Growth (%)	12.0	8.6	12.1	6.2	8.0	16.8	10.2
GDP Deflator (%)	0.7	4.6	6.0	0.9	3.8	7.1	3.7
Inflation (end-of-period, %)	2.0	8.6	2.0	-0.6	1.0	1.9	-3.1
Fiscal Sector							
State Budget Tax Revenues (in billion AMD)	185.4	212.2	250.1	98.0	110.3	131.2	159.6
State Budget Expenditures (in billion AMD)	235.8	242.0	295.9	124.6	128.7	146.4	192.7
State Budget Deficit (in billion AMD)	7.8	-8.1	-2.0	5.8	2.8	-7.2	1.4
State Budget Tax Revenues (as % of GDP)	13.6	13.1	13.2	17.4	16.4	16.6	17.4
State Budget Expenditures (as % of GDP)	17.3	14.9	15.6	22.1	19.1	18.6	21.1
State Budget Deficit (as % of GDP)	0.6	0.5	0.1	1.0	0.4	0.9	0.2
External Sector							
Exports (FOB, in million US dollars)	505.2	685.6	715.0	263.8	377.5	396.6	523.0
Imports (FOB, in million US dollars)	987.2	1,279.5	1,351.0	495.4	726.3	727.9	933.2
Trade Balance (in million US dollars)	-482.0	-593.9	-635.9	-231.6	-348.8	-331.4	-410.2
Exports Growth (%)	47.8	35.7	4.3	na	43.1	5.1	31.9
Imports Growth (%)	12.5	29.6	5.6	na	46.6	0.2	28.2
Trade Balance (as % of GDP)	20.3	21.2	17.9	23.5	30.3	23.3	20.6
Monetary Sector							
Broad Money (end-of-period, in billion AMD)	203.1	233.8	285.9	160.0	203.0	243.1	326.7
Net Foreign Assets of CBA (in billion AMD)	123.7	157.8	168.9	84.4	138.6	145.3	216.7
Broad Money Velocity*	6.7	6.9	6.6	3.5	3.3	3.2	2.8
Money Multiplier	2.0	2.1	2.2	2.0	2.0	2.2	1.9

* Calculated as nominal GDP and Broad Money ratio.

Source: NSS of RA, EDRC calculations.

Financial and Foreign Exchange Markets

	2002	2003	2004	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
	annual indicators			monthly indicators for 2005							
Securities Weighted Average Yield (%)											
9 -12 Months Maturity Period	15.6	9.7	-	-	4.3	3.9	3.7	4.9	-	-	3.2
Medium-Term Coupon with Partial Repayment.	19.7	-	5.6	6.0	4.6	4.6	5.3	4.9	5.7	5.3	5.1
CBA Reference Rate of the Banking Interest	19.0	18.0	16.0	16.0	16.0	16.0	16.0	16.0	18.0	18.0	17.0
Lending Rate (%)	18.8	20.9	18.2	17.0	18.8	19.1	16.6	18.9	18.0	18.4	18.4
Deposit Rate (%)	4.2	6.4	4.4	4.1	6.1	5.9	5.8	5.6	6.1	6.0	6.2
Exchange Rate AMD / USD average (growth, %)	3.3	0.9	-7.8	1.1	-3.7	-1.6	-3.9	0.3	-0.1	-1.4	4.1
Exchange Rate AMD / USD (end-of-period)	584.9	566	485.8	478.5	471.2	458.1	439.3	445.1	442.3	447.7	468.3
Exchange Rate AMD / EUR (end-of-period)	606.9	702.2	661.1	623.3	620.4	593.0	566.9	555.1	533.2	541.7	570.5
Exchange Rate AMD / RUR (end-of-period)	18.3	19.2	17.5	17.1	17.0	16.5	15.8	15.8	15.4	15.6	16.4

Source: CBA, NSS of RA, EDRC calculations.

Main Trends in January-July

Economic growth rates continue to remain high

Economic growth equaled 11.6% during January-July, 2005: that exceeds the growth recorded during the same period of 2004 by 2.3 percentage points. The recorded growth occurred due to acceleration of growth rates in main sectors. The maximum growth is recorded in construction – 29.7% - and in agriculture – 14.1%, whereas the lowest – in services (5.4%).

Prices fell in consumer market

Consumer prices dropped by 4.5% in July – mainly due to drop in prices for foodstuff by 7.1%. Process for agricultural products shrank by 18.2% mostly because of rich harvest. As a result, consumer prices in July decreased by 3.1% compared to December, 2004. Thus, the average inflation rate in January-July dropped more than 5 times (compared to average for January-July, 2004) to only 1.5%.

Sharp decrease in prices for agricultural prices in July resulted in almost two-fold decrease in the GDP deflator compared to the first half of the year. Since November 2003, GDP deflator never fell below 4.0%.

Despite a slight increase in fuel in July compared to prices in June (0.2%) fuel price in July exceeded the December level by about 7%. If compared to prices in January-July, 2004, fuel prices in the same period of 2005 grew on the average by 20.2%.

AMD/USD exchange rate persistently tend to reduce to 1996 level

Average exchange rate (reference rate of the Central Bank of Armenia) in July equaled 442.6 Armenian Drams per 1 USD in contrast to AMD 525.9 in July, 2004. As compared to December 2004, the Dram has appreciated by 7.8% against the US dollar, 10.9% - against the Russian rouble and 18.1% - against the Euro.

Along with growing foreign trade, the Trade Account deficit worsened

Exports in the first seven months of 2005 grew by 31.9% in comparison to the same period of 2004, mostly due to 3-fold increase in exports of non-precious metals and goods thereof. Total exports grew mostly assisted by increased exports to Germany (2.4 times) and the Netherlands (4.5 times). The exports growth was restrained by sharp decreases in exports to the USA and China. Exports of Armenian goods to China have been almost terminated (reduced by 96.8%), whereas exports to the USA decreased by one third.

Imports grew by 28.2%: the largest contribution to that increase came from increased imports of semi-precious stones, precious metals and jewellery by 30.7%, as well as from 29.1% increase in imports of mining products and 61.5% increase of transport and vehicles.

The increased imports from Russia (by 50.6%), Ukraine (by 67.4%), Germany (by 58.4%), as well as Romania (2.5 times) contributed to the overall increase. Meanwhile, imports from Bulgaria decreased by half.

Although exports grew faster than imports, the trade deficit increased by 23.8% compared to the same period of 2004, because imports exceed exports almost two times.

“Dramization” processes expand

Broad money in end of July, 2005 exceeded that of July 2004 by 34.4%. Cash in circulation grew by 35.6% versus 3.3% in the previous year. Due to the appreciation of Dram, the growth of Forex-denominated deposits was two times lower than during the same period of 2004.

Due to the increase in Dram deposits by about 70%, the proportions between the Forex and Dram deposits improved by 0.9 percentage points. Nevertheless, total Forex deposits exceed the Dram deposits almost two times.

Tax revenues grew faster than the GDP, however, the decline in excise taxes continue

During the first six months of 2005, the Budget revenues grew faster than the expenditures. Nonetheless, the Government operated at deficit during the first half of the year. The increase in tax revenues was mostly conditioned by the increases in VAT and profit tax revenues.

The revenue collection was adversely affected by the drop of excise tax revenues by 11.9% (compared to the same period of last year).

According to preliminary results for the first seven months of 2005, excise tax revenues of the Government dropped by 10.2% compared to January-July, 2004 or by AMD 2.3 bln. It is worth noting that this amount equals to the interest payments on external public debt during the same period.

Main Budgetary Indicators

in billion AMD, by execution

	2002	2003	2004	2002	2003	2004	2005
	annual indicators			first half indicators			
State Budget Total Revenues and Grants	228.3	292.0	302.2	102.3	119.6	128.2	161.2
Total Revenues	211.3	241.6	288.5	97.1	105.6	125.8	157.2
Current Revenues	209.5	238.3	279.4	96.5	103.9	124.8	153.2
Tax Revenues, of which	185.4	212.2	250.1	83.3	93.0	109.5	132.6
VAT	95.0	107.8	117.9	43.5	48.8	51.5	61.2
Enterprise Profit Tax	17.4	17.6	32.0	8.3	7.6	14.2	23.1
Personal Income Tax	12.5	16.8	20.4	5.3	7.6	9.2	11.2
Excise Tax	35.3	39.1	40.7	14.9	16.6	18.9	16.6
State Duties	13.2	15.2	16.9	5.8	7.0	7.5	7.2
Non-Tax Revenues	10.9	10.9	12.4	7.4	3.9	7.9	13.3
Capital Revenues	1.8	3.2	9.1	0.6	1.6	1.0	4.0
Grants	17.0	50.5	13.7	5.2	14.1	2.4	4.0
State Budget Total Expenditures	263.9	312.7	334.0	111.7	125.6	135.1	164.3
Defense	36.8	44.3	52.3	16.9	19.5	24.8	29.3
Maintenance of Public Order and Security	16.2	20.8	24.6	6.9	8.3	10.0	13.6
Education and Science	29.1	34.8	47.4	11.3	13.2	16.8	24.9
Public Health	16.0	19.6	24.7	5.0	7.6	9.3	12.0
Social Insurance and Social Security	23.8	29.3	35.0	13.8	12.8	16.4	20.0
Current Expenditures	219.4	222.3	262.8	na	95.6	111.6	132.3
Wages	20.6	13.7	24.2	na	4.4	10.0	13.6
Interest Payments	15.7	11.4	9.8	na	6.2	4.6	4.5
Subsidies	8.2	14.5	18.1	na	6.3	9.3	7.4
Transfers	47.3	41.8	50.1	na	17.8	22.3	32.2
Goods and Services	127.5	140.9	160.5	na	60.7	65.2	74.6
Capital Expenditures	34.2	83.8	60.6	na	26.2	18.3	25.8
Net Lending	10.3	6.6	10.5	na	3.9	5.2	6.2
Deficit Financing	35.6	20.7	31.7	9.4	6.0	6.9	3.1

Source: NSS of RA.

as % of GDP, by execution

	2002	2003	2004	2002	2003	2004	2005
	annual indicators			first half indicators			
Tax Revenues, of which	13.6	13.1	13.2	14.8	13.8	13.9	14.5
VAT	7.0	6.6	6.2	7.7	7.3	6.5	6.7
Enterprise Profit Tax	1.3	1.1	1.7	1.5	1.1	1.8	2.5
Personal Income Tax	0.9	1.0	1.1	0.9	1.1	1.2	1.2
Excise Tax	2.6	2.4	2.1	2.6	2.5	2.4	1.8
Grants	1.2	3.1	0.7	0.9	2.1	0.3	0.4
Total Expenditures, of which	19.4	19.2	17.6	19.8	18.7	17.1	18.0
Defense	2.7	2.7	2.8	3.0	2.9	3.2	3.2
Maintenance of Public Order and Security	1.2	1.3	1.3	1.2	1.2	1.3	1.5
Education and Science	2.1	2.1	2.5	2.0	2.0	2.1	2.7
Public Health	1.2	1.2	1.3	0.9	1.1	1.2	1.3
Social Insurance and Social Security	1.7	1.8	1.8	2.4	1.9	2.1	2.2
Deficit Financing	2.6	1.3	1.7	5.0	4.8	3.3	3.5

Source: NSS of RA, EDRC calculations.