



Monthly Economic Trends in Armenia December 2005

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

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Summary of Key Macroeconomic Indicators

	2002	2003	2004	2002	2003	2004	2005
	Annual indicators			January-October indicators			
Real sector							
GDP Per Capita (in US dollars)	739.6	874.4	1,106.7	564.1	667.2	839.4	1,154.0
GDP Real Growth (%)	13.2	14.0	10.1	11.9	15.7	9.7	12.2
Industry Real Growth (%)	13.9	15.6	2.1	15.1	22.1	1.7	5.9
Agriculture Real Growth (%)	3.8	4.2	14.5	3.2	0.7	13.8	10.4
Construction Real Growth (%)	41.5	45.5	13.4	41.5	53.4	13.0	31.5
Transport & Communications Real Growth (%)	-1.7	8.3	16.9	5.5	7.6	17.2	12.0
Trade Real Growth (%)	19.7	14.1	10.5	14.8	14.3	8.8	9.0
Services Real Growth (%)	12.0	8.6	12.1	3.8	7.2	13.2	10.3
GDP Deflator (%)	0.7	4.6	6.0	1.3	4.0	6.8	3.9
CPI (average, %)	1.1	4.7	7.0	1.0	4.1	7.7	0.8
Fiscal Sector (State Budget Indicators by Financing)							
Tax Revenues (in billion AMD)	185.4	212.2	250.1	147.0	166.0	198.4	238.0
Expenditures (in billion AMD)	235.8	242.0	295.9	181.7	195.2	232.2	300.4
Deficit (in billion AMD)	7.8	-8.1	-2.0	-1.6	-3.3	6.0	-11.2
Tax Revenues (as % of GDP)	13.6	13.1	13.2	14.2	13.3	13.6	14.0
Expenditures (as % of GDP)	17.3	14.9	15.6	17.5	15.7	15.9	17.7
Deficit (as % of GDP)	0.6	0.5	0.1	0.2	0.3	0.4	0.7
External Sector							
Exports (FOB, in million US dollars)	505.2	685.6	715.0	407.8	573.0	574.5	766.4
Imports (FOB, in million US dollars)	987.2	1,279.5	1,351.0	774.8	1,047.4	1,077.0	1,393.2
Trade Balance (in million US dollars)	-482.0	-593.9	-635.9	-367.0	-474.4	-502.5	-626.8
Exports Growth (%)	47.8	35.7	4.3	51.2	40.5	0.3	33.4
Imports Growth (%)	12.5	29.6	5.6	9.2	35.2	2.8	29.4
Trade Balance (as % of GDP)	20.3	21.2	17.9	20.2	22.1	18.6	16.9
Monetary Sector							
Broad Money (end-of-period, in billion AMD)	203.1	233.8	285.9	182.6	210.2	257.6	338.0
Net Foreign Assets of CBA (in billion AMD)	123.7	157.8	168.9	103.3	138.1	148.2	225.3
Broad Money Velocity*	6.7	6.9	6.6	5.7	5.9	5.7	5.0
Money Multiplier	2.0	2.1	2.2	2.0	2.1	2.2	1.9

* Calculated as nominal GDP and Broad Money ratio.

Source: NSS of RA, EDRC calculations.

Financial, Foreign Exchange and Consumer Markets

	2002	2003	2004	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
	Annual			2005 Monthly								
Securities Weighted Average Yield (%)												
9 - 12 Months Maturity Period	15.6	9.7	-	3.9	3.7	4.9	-	-	3.2	3.8	3.9	3.7
Medium-Term Coupon with Partial Repayment	19.7	-	5.6	4.6	5.3	4.9	5.7	5.3	5.1	-	-	5.1
CBA Reference Rate of the Banking Interest	19.0	18.0	16.0	16.0	16.0	16.0	18.0	18.0	17.0	17.0	16.0	16.0
Lending Rate (%)	18.8	20.9	18.2	19.1	16.6	18.9	18.0	18.4	18.4	17.7	18.3	17.4
Deposit Rate (%)	4.2	6.4	4.4	5.9	5.8	5.6	6.1	6.0	6.2	6.5	5.8	5.4
Exchange Rate AMD / USD average (growth, %)	3.3	0.9	-7.8	-1.6	-3.9	0.3	-0.1	-1.4	4.1	-1.4	-1.1	2.0
Exchange Rate AMD / USD (end-of-period)	584.9	566.0	485.8	458.1	439.3	445.1	442.3	447.7	468.3	444.2	451.2	449.4
Exchange Rate AMD / EUR (end-of-period)	606.9	702.2	661.1	593.0	566.9	555.1	533.2	541.7	570.5	535.9	547.7	529.9
Exchange Rate AMD / RUR (end-of-period)	18.3	19.2	17.5	16.5	15.8	15.8	15.4	15.6	16.4	15.6	15.9	15.6
CPI (end-of-period, %)	2.0	8.6	2.0	-0.9	-0.9	0.1	-1.4	-4.5	-1.4	0.9	0.1	1.1
Food Goods	1.2	6.1	9.9	-1.4	-1.3	0.0	-2.1	-6.4	-2.2	0.9	0.0	1.5
Non-Food Goods	0.2	1.9	0.6	-0.4	-0.2	-0.3	-0.1	-0.2	0.4	1.7	0.6	0.5
Services	1.1	1.9	1.5	0.6	0.1	1.0	0.4	-0.2	0.4	0.5	0.1	0.2

* Including tobacco products and alcoholic beverages.

Source: CBA, NSS of RA, EDRC calculations.

Main Trends

Real Sector

During January-October 2005, Armenian economy grew by 12.2%, thus exceeding the growth rate registered in the same period of the previous year by 2.5 percentage points. At the same time, per capita GDP grew by USD 315, of which by USD 178 – during October.

The economic growth was mostly bolstered by increases in value-added in construction and agriculture sectors – by 31.5% and 10.4% respectively. Consequently, significant shifts occurred in the GDP structure in comparison to the previous year, in particular, increase in the share of construction in the GDP by 5.7 percentage points and reduction of the agriculture's share by 3.6 percentage points. Due to described shifts, the value-added in the construction sector reached 20.6% of GDP. The smallest growth rate was registered in industry – 5.9% - which accounts for 20.3% of the nation's GDP.

Fiscal Sector

As per actual data of the Budget implementation during the first nine months of 2005, budget revenues grew at faster rates than the expenditures. Nevertheless, expenditures as share of GDP exceeded revenues as share of GDP by 1.2 percentage points. This resulted in a budget deficit of AMD 17.4 bln for the entire period of three quarters.

21.5% increase in budget revenues is attributable to: VAT increase by 18.6%, non-tax revenues – 2.5 times, and profit tax revenues – by 57.7%. As compare to the same period of the last year, official transfers decreased by about 40% or AMD 2.6 bln, whereas revenues from capital transactions decreased by 9.4%. Increase in tax revenues (19.7%) was constrained by the reductions in excise stamp taxes and simplified tax revenues – by 5.7% and 2.1% respectively. It is worth noting that, if the excise taxes have been decreasing since February, 2005, revenues from simplified taxes was recorded for the first time since its introduction.

During the three quarters of 2005, major expenditures went to Education and Science and General Public Services sectors, as well as to Social Security and Insurance sectors. Simultaneously, allocations to the power sector were reduced by 3.5 times. Expenditures in Agriculture, Forestry and Water sectors decreased by 18.9% compared to the same period in the previous year.

According to the preliminary data of the Ministry of Finance and Economy, Budget revenues and expenditures during January-October exceeded those in the same period of 2004 by 21.4% and 29.3% respectively, resulting in a budget deficit of AMD 11.2 bln. The trends recorded in the previous month continued during October: revenues from the simplified tax decreased by 4.6%. On the expenditure side, it is worth noting the increase in interest payments on external public debt by 13.5%: since March 2004 they displayed a stable decreasing pattern.

External Trade

Exports during January-October grew at a higher pace than imports (difference - 4 percentage points). Nonetheless, trade deficit continued to worsen, as compared to 10 months data of 2004, by USD 124.3 mln or 29.4%.

Trade deficit excluding the humanitarian assistance totaled USD 597.6 mln, thus, reflecting worsening as compared to the same period of 2004 by 25.5%.

Goods worth USD 29.2 mln were imported to Armenia as humanitarian assistance during January- October, 2005: 40% of those goods were products of chemical and adjacent industries, 15.1% - equipment and devices and 11.4% - fabric goods.

Humanitarian assistance decreased by 3% as compared to January-October last year mostly due to reduction of funds allocated by the USA and Italy (16.4% and 89.2% respectively). Simultaneously, assistance volumes from Switzerland and Japan grew 4.5 times.

Monetary Sector

Broad Money grew by 1.7% during October. In particular, reduction in FOREX deposits by 1.7% was accompanied by an increase in Dram-denominated deposits by 4.3%.

As compared to October 2004, Broad Money grew by about one third: cash outside the banking sector almost doubled, whereas Dram-denominated deposits grew by 70%. As a result of decreasing growth rates (9.6%) of FOREX deposits their share in Broad Money decreased by 8.4 percentage points down to 41.5%.

Exchange Rates

During the first 3 weeks of November Dram depreciated against all major currencies. Subsequently, due to a sharp appreciation, USD exchange rate reached AMD 449.4, whereas EUR – exchange rate equaled AMD 529.9 and AMD 15.6 was equivalent to 1 RUR. Thus, the Dram appreciated by 7.5%, 19.8% and 10.7% respectively against USD, EUR and RUR since December, 2004.

Exchange rate fluctuations of the Dram against main currencies during November reached 3.5%. The largest fluctuation – AMD 19.1 – was recorded in the EUR exchange rate: it decreased from its initial AMD 549.0 to 529.9 within one week. Continuous depreciation of the Dram against USD during about 3.5 weeks resulted in the depreciation of the average monthly exchange rate in November over monthly average in October by about 2%.

Consumer Markets

A 1.1% inflation was recorded in consumer prices in November 2005. Increase in prices for food products was the highest – 1.5%. Prices for non-food products and services grew by 0.5% and 0.2% respectively. Nonetheless, consumer prices decreased by 2.4% in comparison to December 2004, meanwhile, they grew by 0.7% during January- November.

GDP deflator equaled 3.9% for January-October. Industrial deflator continues to decrease reaching 9.2% for ten months. As compared to the previous year, construction deflator was the highest – 22.8% which even tends to grow. At the same time, the agriculture deflator decreased by 10.6% from the previous year.

Main Budgetary Indicators

AMD billion, per actual budget implementation

	2002	2003	2004	2002	2003	2004	2005
	Annual			January-September			
State Budget Total Revenues and Grants	228.3	292.0	302.2	159.6	201.9	213.5	259.4
Total Revenues	211.3	241.6	288.5	152.1	168.6	206.5	254.9
Current Revenues	209.5	238.3	279.4	150.9	166.0	198.8	247.9
Tax Revenues, of which	185.4	212.2	250.1	132.0	148.0	176.3	211.0
VAT	95.0	107.8	117.9	67.6	76.3	82.8	98.2
Enterprise Profit Tax	17.4	17.6	32.0	13.0	11.5	21.8	34.3
Personal Income Tax	12.5	16.8	20.4	8.4	11.5	14.6	18.2
Excise Tax	35.3	39.1	40.7	25.3	27.9	29.8	28.1
State Duties	13.2	15.2	16.9	9.8	11.7	12.9	13.0
Non-Tax Revenues	10.9	10.9	12.4	9.2	6.3	9.6	24.0
Capital Revenues	1.8	3.2	9.1	1.1	2.6	7.8	7.0
Grants	17.0	50.5	13.7	7.5	33.3	7.0	4.4
State Budget Total Expenditures	263.9	312.7	334.0	175.2	218.2	230.5	276.8
Defense	36.8	44.3	52.3	28.4	32.7	39.2	48.0
Maintenance of Public Order and Security	16.2	20.8	24.6	11.0	13.9	15.9	21.9
Education and Science	29.1	34.8	47.4	18.3	23.4	30.6	41.0
Public Health	16.0	19.6	24.7	8.4	13.1	15.4	19.6
Social Insurance and Social Security	23.8	29.3	35.0	19.8	20.1	25.2	31.3
Current Expenditures	219.4	222.3	262.8	na	156.0	184.8	216.3
Wages	20.6	13.7	24.2	na	7.9	16.0	21.6
Interest Payments	15.7	11.4	9.8	na	10.8	14.1	11.7
Subsidies	8.2	14.5	18.1	na	4.8	3.5	3.1
Transfers	47.3	41.8	50.1	na	29.6	35.9	50.7
Goods and Services	127.5	140.9	160.5	na	98.6	111.2	125.4
Capital Expenditures	34.2	83.8	60.6	na	55.3	37.5	50.6
Net Lending	10.3	6.6	10.5	na	6.9	8.2	9.9
Deficit Financing	35.6	20.7	31.7	15.6	16.4	17.0	17.4

Source: NSS of RA.

as % of GDP, per actual budget implementation

	2002	2003	2004	2002	2003	2004	2005
	Annual			January-September			
Tax Revenues, of which	13.6	13.1	13.2	15.0	14.1	14.2	14.6
VAT	7.0	6.6	6.2	7.7	7.2	6.7	6.8
Enterprise Profit Tax	1.3	1.1	1.7	1.5	1.1	1.7	2.4
Personal Income Tax	0.9	1.0	1.1	1.0	1.1	1.2	1.3
Excise Tax	2.6	2.4	2.1	2.9	2.7	2.4	2.0
Grants	1.2	3.1	0.7	0.9	3.2	0.6	0.3
Total Expenditures, of which	19.4	19.2	17.6	19.9	20.7	18.5	19.2
Defense	2.7	2.7	2.8	3.2	3.1	3.2	3.3
Maintenance of Public Order and Security	1.2	1.3	1.3	1.2	1.3	1.3	1.5
Education and Science	2.1	2.1	2.5	2.1	2.2	2.5	2.8
Public Health	1.2	1.2	1.3	1.0	1.2	1.2	1.4
Social Insurance and Social Security	1.7	1.8	1.8	2.3	1.9	2.0	2.2
Deficit Financing	2.6	1.3	1.7	1.8	1.6	1.4	1.2

Source: NSS of RA, EDRC calculations.