



Monthly Economic Trends in Armenia

October 2005

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

Yelena Manukyan

Project funded by Oxfam GB



Summary of Key Macroeconomic Indicators

	2002	2003	2004	2002	2003	2004	2005
	annual indicators			January-August indicators			
Real sector							
GDP Per Capita (in US dollars)	739.6	874.4	1,106.7	383.6	444.9	557.2	784.2
GDP Real Growth (%)	13.2	14.0	10.1	9.8	14.8	9.7	11.7
Industry Real Growth (%)	13.9	15.6	2.1	9.7	19.2	3.2	5.9
Agriculture Real Growth (%)	3.8	4.2	14.5	1.2	0.1	14.4	11.8
Construction Real Growth (%)	41.5	45.5	13.4	36.4	55.6	12.5	31.2
Transport & Communications Real Growth (%)	-1.7	8.3	16.9	3.3	10.4	15.4	10.1
Trade Real Growth (%)	19.7	14.1	10.5	14.8	13.6	9.2	6.9
Services Real Growth (%)	12.0	8.6	12.1	6.0	6.5	14.9	10.0
GDP Deflator (%)	0.7	4.6	6.0	0.9	3.4	7.3	5.7
CPI (average, %)	1.1	4.7	7.0	1.1	3.8	7.9	0.9
Fiscal Sector (State Budget Indicators by Financing)							
Tax Revenues (in billion AMD)	185.4	212.2	250.1	114.4	128.4	152.3	184.3
Expenditures (in billion AMD)	235.8	242.0	295.9	142.5	151.1	173.6	226.4
Deficit (in billion AMD)	7.8	-8.1	-2.0	5.1	1.8	-4.5	-0.6
Tax Revenues (as % of GDP)	13.6	13.1	13.2	16.3	15.4	15.5	15.9
Expenditures (as % of GDP)	17.3	14.9	15.6	20.3	18.1	17.7	19.5
Deficit (as % of GDP)	0.6	0.5	0.1	0.7	0.2	0.5	0.1
External Sector							
Exports (FOB, in million US dollars)	505.2	685.6	715.0	299.3	443.2	446.2	603.8
Imports (FOB, in million US dollars)	987.2	1,279.5	1,351.0	579.1	826.1	838.9	1,085.4
Trade Balance (in million US dollars)	-482.0	-593.9	-635.9	-279.8	-382.8	-392.7	-481.7
Exports Growth (%)	47.8	35.7	4.3	na	48.1	0.7	35.3
Imports Growth (%)	12.5	29.6	5.6	na	42.6	1.6	29.4
Trade Balance (as % of GDP)	20.3	21.2	17.9	22.7	26.8	21.9	19.1
Monetary Sector							
Broad Money (end-of-period, in billion AMD)	203.1	233.8	285.9	164.4	208.1	247.0	346.0
Net Foreign Assets of CBA (in billion AMD)	123.7	157.8	168.9	87.2	144.4	144.6	232.4
Broad Money Velocity*	6.7	6.9	6.6	4.3	4.0	4.0	3.4
Money Multiplier	2.0	2.1	2.2	1.9	2.0	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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
	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	3.8
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	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	17.7
Deposit Rate (%)	4.2	6.4	4.4	4.1	6.1	5.9	5.8	5.6	6.1	6.0	6.2	6.5
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	-1.4
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	444.2
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	535.9
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	15.6
CPI (end-of-period, %)	2.0	8.6	2.0	5.4	-0.7	-0.9	-0.9	0.1	-1.4	-4.5	-1.4	0.9
Food Goods*	1.2	6.1	9.9	7.7	-0.6	-1.4	-1.3	0.0	-2.1	-6.4	-2.2	0.9
Non-Food Goods	0.2	1.9	0.6	0.8	-0.3	-0.4	-0.2	-0.3	-0.1	-0.2	0.4	1.7
Services	1.1	1.9	1.5	0.2	-1.4	0.6	0.1	1.0	0.4	-0.2	0.4	0.5

* Including tobacco and alcoholic beverages.

Source: CBA, NSS of RA, EDRC calculations.

Main Trends

Per capita GDP has grown by 41%

Real growth in January-August 2005 equaled 11.7%, thus exceeding the growth recorded in the same period of the previous year by 2 percentage points. At the same time, per capita GDP grew by USD 227, of which by USD 52 – in August.

The recorded economic growth was bolstered by growth rates in Construction, Agriculture and Services Sectors – by 4.3%, 2.3% and 1.9% respectively. The growth rates in individual sectors were remarkable again in Construction and Agriculture – 31.2% and 11.8% respectively. The lowest growth rate was recorded in the Industrial Sector – 5%.

Tax Revenues as % of GDP remain stable and declined as compared to 2002

According to preliminary data of the Ministry of Finance and Economy of Armenia, Revenues of the State Budget as % of GDP grew by 27.5% in January-August in comparison with the same period of the previous year, equaling 19.6% of GDP. Despite the fact that the Expenditures of the State Budget grew faster than the Revenue, a Budget Surplus of AMD 597.4 mln was recorded.

Tax Revenues grew by 21.0% - mostly due to increase of VAT and Profit tax revenues by 20.1% and 67.9% respectively.

A drop in the Excise tax revenues negatively affected the total revenues' growth: despite that the Excise tax revenues in August, 2005 exceeded those in August last year by 13.1%, cumulative indicator for January-August was lower by 7.1% as compared to the same period of the last year.

Budget Expenditures in January-August, 2005 were higher than those in the last year's same period by one third. About half of funds were spent in Defense, Education and Science, as well as Social Insurance and Social Security Sectors. The most prominent growth in spendings were recorded in Education and Science, resulting in an overall increase by 39.3%.

Interest payments for external and domestic debts in January-August decreased considerably, so did the subsidies. On the other hand, capital expenditures grew three-fold, whereas the expensed on procurement of goods and services (which constitute the major item in expenditures) grew by 16.5%.

Consequently, although the Revenues and Expenditures as % of GDP in January-August exceeded those in the same period of the previous year, they still remain below the same indices of 2002.

Trade Deficit Worsened

Exports grew by 35.3% in the first eight months of 2005, mainly resultant from the three-fold growth in exports of precious and semi-precious metals and products thereof. Exports of minerals and raw materials shrunk by about a quarter negatively affecting the total exports.

Imports grew by 29.4% in the same period, again, mainly affected by a 29.4% increase in imports of precious and semi-precious stones, precious metals and products thereof, as well as 35.6% increase in imports of raw materials and minerals and 65.1% - of vehicles.

Nevertheless, both exports' and imports' share in GDP declined by 4.0% and 8.2% respectively. Notably, the deeper drop in imports as a share of GDP resulted in improvement of the trade deficit by 2.8 percentage points.

As a whole, the trade deficit in January-August, 2005 worsened by 22.6% as compared to the same period of 2004.

Dram deposits grew faster than FOREX deposits

Broad Money at end-August grew by AMD 19.3 bln or 5.9% as compared to end-July: AMD 14.2 bln of that increase was due to increase of FOREX deposits. Simultaneously, Dram-denominated demand deposits shrunk by AMD 2.4 bln.

As compared to August, 2004, Broad Money has grown by 4.01%. Cash in circulation outside the banking sector had grown by 42.6% or AMD 37 bln, whereas FOREX deposits – by 28.6% or AMD 35.1 bln. It is worth noting that the Dram-denominated deposits grew at a rate 2.5 faster than the growth rate of FOREX deposits.

As of end-August, 2005 Net Foreign Assets of the Central Bank of Armenia grew by 60.7% as compared to August, 2004.

Depreciation of the Dram was a short-term phenomenon

Slight depreciation of the Dram in August in the foreign exchange market lasted only for a short time and, already in September, the Dram appreciated against all main currencies.

Dram depreciated as much as AMD 478 per 1 USD during August. Later, by appreciated per AMD 1.1 per day in September, the exchange rate reached AMD 444.2 at the end of September. As a result, average reference exchange rate of the Dram against the US Dollar equaled 454.4 compared to 513.4 in end-September, 2004.

As compared to end of 2004, the Dram has appreciated by 8.6% against the Dollar, 11% against the Russian Rouble and 18.9% - against Euro.

Summer deflation is over

Consumer prices grew by 0.9% during September: prices for non-food products grew at the highest – by 1.7%. Among this group, the prices for vehicles and petrol grew most - by 12.8%, prices for stationary grew by 2.2%, whereas for jewelry goods – by 1.4%.

Among the food products, the prices for vegetables and potatoes grew by 8.3% and the price for sugar – by 3.4%. It is worth noting that prices for eggs grew by 6.2%, which have been consistently declining since February. Simultaneously, prices for fish and fruits declined by 4.8% and 3.6% respectively.

Prices for education services grew by 5.4%, and that of cultural services – by 3.4% together with 1.6% increase in prices for inter-city transport services.

GDP deflator in January-August equaled 5.7% which exceeded the January-July index 1.5 times.

Main Budgetary Indicators

in billion AMD, by financing

	2002	2003	2004	2002	2003	2004	2005
	annual indicators			January-August indicators			
State Budget Total Revenues and Grants	228.0	250.1	297.9	137.4	149.3	178.0	227.0
Total Revenues	211.3	240.2	288.2	132.2	145.7	173.4	223.9
Current Revenues	209.5	237.0	279.1	131.4	143.4	172.1	217.6
Tax Revenues, of which	185.4	212.2	250.1	114.4	128.4	152.3	184.3
VAT	95.0	107.8	117.9	58.5	66.2	72.1	86.6
Enterprise Profit Tax	17.4	17.6	32.0	11.8	10.1	17.6	29.5
Personal Income Tax	12.5	16.8	20.4	7.4	10.2	13.0	15.8
Excise Tax	35.3	39.1	40.7	21.3	24.1	26.1	24.2
State Duties	13.2	15.2	16.9	8.7	10.1	11.3	11.2
Non-Tax Revenues	10.9	9.5	12.0	8.2	4.9	8.5	22.1
Capital Revenues	1.8	3.2	9.1	0.9	2.3	1.3	6.3
Grants	16.7	9.9	9.7	5.2	3.6	4.6	3.1
State Budget Total Expenditures	235.8	242.0	295.9	142.5	151.1	173.6	226.4
Defense	36.8	44.3	52.5	27.0	29.3	35.1	42.6
Maintenance of Public Order and Security	15.9	19.9	23.2	9.7	12.1	13.5	18.1
Education and Science	29.1	32.9	45.2	16.4	19.9	24.9	34.7
Public Health	14.8	18.9	24.3	5.5	11.2	12.7	17.3
Social Insurance and Social Security	23.8	29.3	35.3	17.8	17.9	22.5	28.3
Current Expenditures	210.4	214.5	252.8	121.4	136.2	153.6	183.7
Wages	20.9	13.9	24.3	12.2	6.5	14.5	19.5
Interest Payments	15.7	11.3	9.8	9.3	7.8	6.5	5.9
Subsidies	8.2	15.1	18.4	6.5	10.1	13.4	11.1
Transfers	47.8	43.9	60.1	27.7	27.0	33.1	46.8
Goods and Services	117.8	130.3	140.1	65.8	84.8	86.1	100.3
Capital Expenditures	13.6	21.6	32.7	7.0	9.5	13.1	34.0
Net Lending	11.8	5.8	10.5	14.1	5.5	6.9	8.7
Deficit Financing	7.8	-8.1	-2.0	5.1	1.8	-4.5	-0.6

Source: NSS of RA.

as % of GDP, by financing

	2002	2003	2004	2002	2003	2004	2005
	annual indicators			January-August indicators			
Tax Revenues, of which	13.6	13.1	13.2	16.3	15.4	15.5	15.9
VAT	7.0	6.6	6.2	8.3	7.9	7.3	7.5
Enterprise Profit Tax	1.3	1.1	1.7	1.7	1.2	1.8	2.5
Personal Income Tax	0.9	1.0	1.1	1.0	1.2	1.3	1.4
Excise Tax	2.6	2.4	2.1	3.0	2.9	2.7	2.1
Grants	1.2	0.6	0.5	0.7	0.4	0.5	0.3
Total Expenditures, of which	17.3	14.9	15.6	20.3	18.1	17.7	19.5
Defense	2.7	2.7	2.8	3.8	3.5	3.6	3.7
Maintenance of Public Order and Security	1.2	1.2	1.2	1.4	1.4	1.4	1.6
Education and Science	2.1	2.0	2.4	2.3	2.4	2.5	3.0
Public Health	1.1	1.2	1.3	0.8	1.3	1.3	1.5
Social Insurance and Social Security	1.8	1.8	1.9	2.5	2.1	2.3	2.4
Deficit Financing	0.6	0.5	0.1	0.7	0.2	0.5	0.1

Source: NSS of RA, EDRC calculations.