



Monthly Economic Trends in Armenia February 2006

The recent monthly data available as of February, 2006 was used: data for GDP, Gross Production, State Budget and External Sector available refers to January-December 2005, whereas data for financial, FOREX and consumer markets – to January, 2006.

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Summary of Key Macroeconomic Indicators

	2002	2003	2004	2005
	Annual			
Real sector				
GDP Per Capita (in US dollars)	739.6	874.4	1,106.7	1,513.7
GDP Real Growth (%)	13.2	14.0	10.1	13.9
Industry Real Growth (%)	13.9	15.6	2.1	7.4
Agriculture Real Growth (%)	3.8	4.2	14.5	11.2
Construction Real Growth (%)	41.5	45.5	13.4	35.1
Transport & Communications Real Growth (%)	-1.7	8.2	16.9	13.2
Trade Real Growth (%)	19.7	14.1	10.5	9.6
Services Real Growth (%)	12.0	8.6	12.1	10.4
GDP Deflator (%)	0.7	4.6	6.0	3.1
CPI (period average, %)	1.1	4.7	7.0	0.6
Fiscal Sector (State Budget Indicators by Financing)				
Tax Revenues (AMD billion)	185.4	212.2	250.1	304.3
Expenditures (AMD billion)	235.8	242.0	295.9	395.2
Deficit (AMD billion)	7.8	-8.1	-2.0	22.2
Tax Revenues (as % of GDP)	13.6	13.1	13.2	13.7
Expenditures (as % of GDP)	17.3	14.9	15.6	17.7
Deficit (as % of GDP)	0.6	0.5	0.1	1.0
External Sector				
Exports (FOB, million US dollars)	505.2	685.6	722.9	950.4
Imports (FOB, million US dollars)	987.2	1,279.5	1,350.7	1,767.9
Trade Balance (million US dollars)	-482.0	-593.9	-627.8	-817.6
Exports Growth (%)	47.8	35.7	5.4	31.5
Imports Growth (%)	12.5	29.6	5.6	30.9
Trade Balance (as % of GDP)	20.3	21.2	17.7	16.8
Monetary Sector				
Broad Money (end-of-period, AMD billion)	203.1	233.8	285.9	365.6
Net Foreign Assets of CBA (AMD billion)	123.7	157.8	168.9	237.6
Broad Money Velocity*	6.7	6.9	6.6	6.1
Money Multiplier	2.0	2.1	2.2	1.9

* Calculated as nominal GDP divided by Broad Money.

Source: NSS of RA, EDRC calculations.

Financial, Foreign Exchange and Consumer Markets

	2002	2003	2004	2005	January 2006
Securities, Weighted Average Yield (%)					
9 -12 Months Maturity Period	15.6	9.7	-	-	4.9
Medium-Term Coupon with Partial Repayment	19.7	-	5.6	-	-
CBA Reference Rate of the Banking Interest	19.0	18.0	16.0	16.0	16.0
Lending Rate (%)	18.8	20.9	18.2	17.3	16.9
Deposit Rate (%)	4.2	6.4	4.4	6.5	6.4
Exchange Rate AMD / USD average (growth, %)	3.3	0.9	-7.8	-14.2	0.5
Exchange Rate AMD / USD (end-of-period)	584.9	566.0	485.8	450.2	449.2
Exchange Rate AMD / EUR (end-of-period)	606.9	702.2	661.1	532.4	542.7
Exchange Rate AMD / RUR (end-of-period)	18.3	19.2	17.5	15.6	16.0
CPI (end-of-period, %)	2.0	8.6	2.0	-0.2	3.6
Food Goods*	1.9	12.4	2.8	-1.2	5.2
Non-Food Goods	2.7	0.4	0.0	2.1	0.0
Services	1.5	2.1	0.5	1.9	0.1

* Including tobacco products and alcoholic beverages.

Source: CBA, NSS of RA, EDRC calculations.

Main Trends

Real Sector

A 13.9% real GDP growth was recorded during January-December, 2005, which exceeds 8% target estimated at the beginning of the year by 5.9 percentage points. The recorded growth rate accelerated by 3.8 percentage points in comparison to the previous year. Consequently, average per capita monthly GDP grew by USD 34 and totaled to USD 126.

The economic growth was mostly determined by the growth rates recorded in construction, agriculture and service sectors – by providing for respectively 5.4, 2.5 and 1.8 percentage points in the aggregate real growth. Contribution of the same sectors to the growth in 2004 constituted respectively 2.1, 3.1 and 2.2 percentage points. Considerable changes occurred in the structure of the GDP: the most prominent were the increase in the share of the construction n GDP by 6.1 percentage points and the decrease in the share of agriculture by 3.8 percentage points. As a result, 21.6% of the GDP was generated by the value added in the construction sector, while shares of the agriculture and industry equaled – 18.8% and 18.7% respectively.

59.4% of the GDP was created by the production of goods, 32.1% - from services, while 8.5% - from net indirect taxes.

High pace of growth was recorded in construction – it accelerated by 21.7 percentage points, reaching 35.1%. The lowest increase was recorded in industry – 7.4%

Fiscal Sector

According to the preliminary data of the MFE, Revenues of the State Budget grew by about 25% as compared to those in 2004: they equaled 16.7% of the GDP. The growth rate of Budgetary Expenditures exceeded that of Budgetary Revenues by 8.4 percentage points. Consequently, the Budget Deficit of AMD 22.2 bln as equivalent to 1% of the GDP.

Increase in Revenues took place mainly due to increased VAT (24.5%), Non-Tax revenues (2.4 times) and Profit Tax (45.4%). The decrease in Excise and Simplified Taxes by 5% and 6% respectively restrained the increase in total Revenues by 0.8 percentage points.

Tax revenues grew by 21.6% which is higher than the 2004 increase by 3.8 percentage points. Tax revenues as share of GDP exceeded the same ratio for 2004 by 0.5 percentage points, nonetheless, the targeted Tax revenues-to-GDP ratio of 14.0% was not achieved.

Budget Expenditures grew by 33.5% from 2004. The largest increase in allocations was recorded in allocations to the Fuel and Energy Sector – 19.5 times. As a consequence, the share of allocations to the said sector in the total reached 2.7%, whereas they constituted 0.2% of total in 2004.

Allocations to Education and Science increased 30.2% in 2005, allocations to Health and Social programs – by 25.3% and 24.7% respectively. Nevertheless, these increases in terms of shares in the GDP resulted in a very modest increase – in the range of 0.1-0.2%, while allocations to those sectors in Total Budget Expenditures even decreased.

Increase in allocations mostly took place due to the increased capital expenditures, as well as public procurement of goods and services – 2.2 times and by 24% respectively.

External Trade

During 2005, exports of goods and services grew at higher rate than imports (by 0.6 percentage points). This, however, was not sufficient for the improvement of the Trade Balance: Trade deficit increased by 30.2% as compared to the previous year. Simultaneously, share of both imports and exports in the GDP decreased by 0.8% and 1.7% respectively. The imports-to-GDP ratio decreased more than the exports-to-GDP, as a result of which Trade Deficit as share of GDP decreased by 0.9 percentage points reaching 16.8% of the GDP. As a consequence, Trade deficit (excluding humanitarian assistance) equaled USD 777.2 mln.

Monetary Sector

According to the preliminary data of the CBA, the Broad Money grew by AMD 79.6 during 2005, AMD 45.7 bln or 57.5% took place due to the increase in Cash outside the banking sector. Unprecedented increase in Dram deposits, demand and saving, by 70.6% and 70.9% respectively was accompanied by insignificant increase in FOREX deposits – by 0.4%. As a result, the

ratio of FOREX deposits to Dram deposits improved considerably: previously, FOREX deposits exceeded Dram deposit 3 times, while in 2005 they exceed only 1.7 times.

Exchange Rates

In January 2006, average Dram exchange rate appreciated against all major currencies, including – by 8.1% against USD (by AMD 40), by 15.3% against EUR (by AMD 99) and by 9.5% against RUR (by AMD 1.7). The maximum exchange rates of these currencies during January, 2006 were recorded AMD 455.9 for USD, AMD 551.4 for EUR and AMD 16.1 – for RUR. The largest fluctuation was recorded in the exchange rate for EUR – AMD 19.

By end-January, Dram appreciated against USD by AMD 1 compared to end-December. Simultaneously, it appreciated by AMD 10.4 against EUR and AMD 0.3 – against RUR.

Consumer Markets

3.6% inflation was recorded during January, 2006 in the consumer prices mostly due to the increase in food products by 5.2%. The major price increases in this subgroup were recorded in prices for potato (35.3%), fruit (24.1%), fish (10.3%) and eggs (4.6%).

Prices for non-food products generally remained stable, however prices for jewelry grew by 10.7% as compared to the previous month, whereas prices for cars and petrol decreased by 2.6%.

Prices for services increased by 0.1%, among which prices for shoe repair services grew by 2.2%, for telephone (telegraph) services – by 1.8%, and urban transport services – by 1.4%. Simultaneously, prices for cultural and inter-city transport services decreased by 5.0% and 0.4% respectively.

GDP deflator during January-December, 2005 equaled 3.1%. The highest deflator was recorded in construction – 21.3%. As compared to the previous year, prices decreased in agriculture and transport (and communications) sectors by 12.3% and 2.4% respectively.

Main Budgetary Indicators

AMD billion, per budgetary financing

	2002	2003	2004	2005
Total Revenues and Grants, State Budget				
		Annual		
Total Revenues	228.0	250.1	297.9	372.9
Current Revenues	211.3	240.2	288.2	363.1
Tax Revenues, of which	209.5	237.0	279.1	350.7
VAT	185.4	212.2	250.1	304.3
Enterprise Profit Tax	95.0	107.8	117.9	146.8
Personal Income Tax	17.4	17.6	32.0	46.6
Excise Tax	12.5	16.8	20.4	26.6
State Duties	35.3	39.1	40.7	38.6
Non-Tax Revenues	13.2	15.2	16.9	17.3
Capital Revenues	10.9	9.5	12.0	29.2
Official Transfers	1.8	3.2	9.1	12.4
State Budget Total Revenues and Official Transfers	16.7	9.9	9.7	9.8
Total Expenditures, State Budget				
Defense	36.8	44.3	52.5	64.4
Maintenance of Public Order and Security	15.9	19.9	23.2	33.3
Education and Science	29.1	32.9	45.2	58.8
Public Health	14.8	18.9	24.3	30.4
Social Insurance and Social Security	23.8	29.3	35.3	44.1
Current Expenditures	210.4	214.5	252.8	310.1
Wages	20.9	13.9	24.3	33.2
Interest Payments	15.7	11.3	9.8	9.9
Subsidies	8.2	15.1	18.4	16.5
Transfers	47.8	43.9	60.1	76.6
Goods and Services	117.8	130.3	140.1	173.8
Capital Expenditures	13.6	21.6	32.7	71.9
Net Lending	11.8	5.8	10.5	13.2
Deficit Financing	7.8	-8.1	-2.0	22.2

Source: NSS of RA.

as % of GDP, per budgetary financing

	2002	2003	2004	2005
		Annual		
Tax Revenues, of which:	13.6	13.1	13.2	13.7
Value Added Tax	7.0	6.6	6.2	6.6
Profit Tax	1.3	1.1	1.7	2.1
Income Tax	0.9	1.0	1.1	1.2
Excise Tax	2.6	2.4	2.1	1.7
Official Transfers	1.2	0.6	0.5	0.4
Total Expenditures, of which:	17.3	14.9	15.6	17.7
Defense	2.7	2.7	2.8	2.9
Public Order	1.2	1.2	1.2	1.5
Education and Science	2.1	2.0	2.4	2.6
Health	1.1	1.2	1.3	1.4
Social Insurance and Protection	1.8	1.8	1.9	2.0
Deficit Financing	0.6	0.5	0.1	1.0

Source: NSS of RA, EDRC calculations.