



Monthly Economic Trends in Armenia

March 2006

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

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Summary of Key Macroeconomic Indicators

	2003	2004	2005	2003	2004	2005	2006
Real sector	Annual			January			
GDP Per Capita (in US dollars)	874.4	1,106.7	1,513.7	28.1	33.8	43.9	49.8
GDP Real Growth (%)	14.0	10.1	13.9	10.6	4.4	3.6	7.7
Industry Real Growth (%)	15.6	2.1	7.4	9.9	-8.6	-0.9	-1.9
Agriculture Real Growth (%)	4.2	14.5	11.2	6.0	4.3	0.6	4.1
Construction Real Growth (%)	45.5	13.4	35.1	95.3	-25.8	0.2	4.7
Transport & Communications Real Growth (%)	8.2	16.9	13.2	20.6	9.3	12.3	15.0
Trade Real Growth (%)	14.1	10.5	9.6	9.8	9.7	6.3	9.3
Services Real Growth (%)	8.6	12.1	10.4	5.9	11.3	18.1	12.7
GDP Deflator (%)	4.6	6.0	3.1	4.2	12.4	8.6	-3.1
CPI (period average, %)	4.7	7.0	0.6	3.9	6.3	4.9	-1.9
Fiscal Sector (State Budget Indicators by Financing)							
Tax Revenues (in billion AMD)	212.2	250.1	304.3	11.0	15.8	19.5	23.2
Expenditures (in billion AMD)	242.0	295.9	395.2	8.9	11.2	11.5	17.2
Deficit (in billion AMD)	-8.1	-2.0	22.2	-4.3	-6.6	-16.5	-10.8
Tax Revenues (as % of GDP)	13.1	13.2	13.7	20.9	25.6	28.1	32.1
Expenditures (as % of GDP)	14.9	15.6	17.7	17.0	18.1	16.6	23.7
Deficit (as % of GDP)	0.5	0.1	1.0	8.1	10.7	23.8	14.9
External Sector							
Exports (FOB, in million US dollars)	685.6	722.9	950.4	42.1	37.7	43.3	47.8
Imports (FOB, in million US dollars)	1,279.5	1,350.7	1,767.9	87.2	84.1	115.4	117.4
Trade Balance (in million US dollars)	-593.9	-627.8	-817.6	-45.1	-46.4	-72.1	-69.6
Exports Growth (%)	35.7	5.4	31.5	16.1	-10.4	14.9	10.5
Imports Growth (%)	29.6	5.6	30.9	36.2	-3.6	37.3	1.7
Trade Balance (as % of GDP)	21.2	17.7	16.8	50.1	42.7	51.1	43.4
Monetary Sector							
Broad Money (end-of-period, in billion AMD)	233.8	285.9	365.6	185.2	221.0	269.8	354.6
Net Foreign Assets of CBA (in billion AMD)	157.8	168.9	237.6	124.4	151.5	160.0	214.8
Broad Money Velocity*	6.9	6.6	6.1	0.3	0.3	0.3	0.2
Money Multiplier	2.1	2.2	1.9	1.8	2.1	2.3	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	February
	Annual				Monthly indicators 2005	
Securities, Weighted Average Yield (%)						
9 -12 Months Maturity Period	15.6	9.7	-	-	4.9	4.1
Medium-Term Coupon with Partial Repayment	19.7	-	5.6	-	-	4.9
CBA Reference Rate of the Banking Interest	19.0	18.0	16.0	16.0	16.0	16.0
Lending Rate (%)	18.8	20.9	18.2	17.3	16.9	na
Deposit Rate (%)	4.2	6.4	4.4	6.5	6.4	na
Exchange Rate AMD / USD average (growth, %)	3.3	0.9	-7.8	-14.2	0.5	-0.3
Exchange Rate AMD / USD (end-of-period)	584.9	566.0	485.8	450.2	449.2	450.7
Exchange Rate AMD / EUR (end-of-period)	606.9	702.2	661.1	532.4	542.7	534.2
Exchange Rate AMD / RUR (end-of-period)	18.3	19.2	17.5	15.6	16.0	16.0
CPI (end-of-period, %)	2.0	8.6	2.0	-0.2	3.6	0.2
Food Goods*	1.9	12.4	2.8	-1.2	5.2	0.2
Non-Food Goods	2.7	0.4	0.0	2.1	0.0	0.1
Services	1.5	2.1	0.5	1.9	0.1	0.3

* Including tobacco products and alcoholic beverages.

Source: CBA, NSS of RA, EDRC calculations.

Main Trends

Real Sector

Under almost two-fold acceleration of economic growth in January 2006 in comparison to January 2005, per capita GDP grew by USD 6 and reached USD 50.

3.6 percentage points of the 7.7% real growth took place due to the Net indirect taxes which grew by 21.4%.

The highest growth rates were recorded in Transport (and Communication) – 15%, Services – 12.7%, Trade – 9.8%: they contributed respectively 0.9, 1.7 and 1.5 percentage points to the GDP growth. Gross value added in Industry declined by 1.9%.

43.4% of the GDP was generated due to the production of goods, whereas 37.6% - due to provision of services and 19% - from taxes (excluding subsidies).

Fiscal Sector

According to the preliminary data of the MFE, Revenues of the State Budget in January 2006 declined by AMD 98.6 mln or 0.4% as compared to January 2005, while the Expenditures increased 1.5 times. Nevertheless, exceedance of Expenditures over Revenues nearly 1.6 times resulted in Budget surplus equivalent to 15% of the GDP.

Decline in Budget Revenues during January was mainly attributable to the decline in Non-Tax Revenues 7 times. At the same time, Tax Revenues grew by 19.3% - mostly due to doubled Revenues from the Income Tax, as well as increased revenues from Profit Tax and VAT by 51.3% and 12.5% respectively. Increase in Tax revenues were restrained by 1.8 percentage points due to decreased revenues from the Simplified tax and fees for the use of natural resources by 23.9% and 20.1% respectively.

Main Budget Expenditures in January 2006 were directed to Defense and Social sectors – AMD 5 bln and AMD 3.6 bln respectively. No allocations were paid to the programs in Education and Science, as well as Health sector in January 2005. Meanwhile, AMD 468 mln and AMD 14 mln respectively were spent in these sectors in January 2006. The most prominent increase in the budget financing took place in the Transport (Roads and Communications) sector – 26 times.

As compared to January 2005, Expenditures on Salaries increased 3.5 times, while Capital expenditures grew 2.6 times. Subsidies were reduced by half, thus, declining by 7.9 percentage points and reaching 3.7% of total Budget Expenditures.

Foreign Trade

In January 2006, Exports grew at 8.8 percentage points higher rate than Imports. As a result, the Trade Balance improved by 3.5% in comparison to January 2005, reaching a Trade Deficit of 43.4% of the GDP. It totaled USD 68 mln (excluding Humanitarian Assistance).

The largest trade turnover was recorded with the Russian Federation and Germany – USD 24.5 mln and USD 17.2 mln respectively.

Among the Marzes (Provinces) of Armenia, Yerevan and Kotayq were recorded to have the largest share in the Foreign Trade with respectively 51.1% and 29.3% of Exports and 70.5% and 16.5% of Imports.

The Humanitarian Assistance, imported to Armenia in January 2006, (155.6 tones) mostly consisted of textile – 44.4% and equipments – 19.6%. The bulk of the humanitarian assistance came from the US (67.2%), Germany (14.2%) and France (11.8%).

Monetary Sector

According to the preliminary data of the CBA, the Broad Money decreased by AMD 10.9 bln during January 2006, in particular, both cash outside the banking sector and Dram deposits declined (by AMD 13.6 bln and AMD 4.1 bln respectively). At the

same time, the FOREX deposits - which exceeded the cash outside banks by AMD 17 bln and Dram Deposits – by almost two times – grew by 4.8%.

As compared to January 2005, the Broad Money grew by 31.4% which mostly took place due to 60% growth in cash outside the banking system. Dram deposits grew by 58% reaching 21.6% in Broad Money, while the FOREX deposits grew by 5.8% however, their share in the Broad Money declined by 10 percentage points reaching 42% of the latter.

Exchange Rates

In February 2006, the Dram depreciated against US dollar and Russian Rouble (RUR) and appreciated against EUR. The highest exchange rates recorded during February were as follows: AMD 451.2 for 1 US dollar, AMD 544.4 against 1 EUR and AMD 16.0 – against RUR. The major fluctuation was recorded in the EUR exchange rate - by AMD 10. By the end of February, Dram depreciated as compared to end-December by AMD 0.5 against USD, AMD 1.8 – against EUR and AMD 0.4 – against RUR.

The average Dram exchange rates appreciated during January-February 2006 against all major currencies: by AMD 32 (6.6%) – against US, AMD 88 (14%) – against EUR and AMD 1.3 (7.6%) – against RUR.

Consumer Markets

0.2% inflation was recorded during January-February, 2006. Prices for food products grew by 0.2%. The major price increases in this subgroup were recorded in prices for sugar (8.4%), fish products (6.6%), as well as vegetables and potatoes (3.4%). Simultaneously, prices for eggs declined by 8.5% and prices for fruits – by 3.1%.

Prices for non-food products increased by 0.1%, with prices for jewelry having grown by 4.8%. Prices for services increased by 0.3%, including increased prices for cultural events by 9.2%, for telephone (telegraph) – by 2.9% and shoe repair services 0 by 2.9%.

As compared to December 2005, the Consumer prices grew by 3.8%.

GDP deflator in January was recorded as -3.1%. A negative deflator indicates that prices for end-products and services in the GDP have decreased in comparison to January 2005. A negative GDP deflator was not recorded ever since March, 2002.

Main Budgetary Indicators

AMD billion, per budgetary financing

	2003	2004	2005	2003	2004	2005	2006
	Annual			January			
State Budget Total Revenues and Grants	250.1	297.9	372.9	13.2	17.7	28.0	27.9
Total Revenues	240.2	288.2	363.1	13.2	17.7	28.0	27.6
Current Revenues	237.0	279.1	350.7	13.0	17.7	27.9	25.2
Tax Revenues, of which	212.2	250.1	304.3	11.0	15.8	19.5	23.2
VAT	107.8	117.9	146.8	6.0	8.5	8.9	10.0
Enterprise Profit Tax	17.6	32.0	46.6	0.8	0.9	2.3	3.5
Personal Income Tax	16.8	20.4	26.6	0.8	1.2	1.4	2.8
Excise Tax	39.1	40.7	38.6	1.8	3.0	3.2	3.4
State Duties	15.2	16.9	17.3	0.5	0.9	0.8	0.9
Non-Tax Revenues	9.5	12.0	29.2	1.5	1.0	7.6	1.0
Capital Revenues	3.2	9.1	12.4	0.2	0.1	0.1	2.4
Grants	9.9	9.7	9.8	-	-	-	0.4
State Budget Total Expenditures	242.0	295.9	395.2	8.9	11.2	11.5	17.2
Defense	44.3	52.5	64.4	2.0	3.7	3.5	5.0
Maintenance of Public Order and Security	19.9	23.2	33.3	0.8	1.2	0.5	1.4
Education and Science	32.9	45.2	58.8	0.5	0.2	-	0.5
Public Health	18.9	24.3	30.4	0.002	0.2	-	0.01
Social Insurance and Social Security	29.3	35.3	44.1	2.0	1.4	2.5	3.6
Current Expenditures	214.5	252.8	310.1	8.2	10.4	10.3	14.6
Wages	13.9	24.3	33.2	0.0	0.6	0.3	1.1
Interest Payments	11.3	9.8	9.9	0.6	0.5	0.5	0.5
Subsidies	15.1	18.4	16.5	1.0	1.4	1.3	0.6
Transfers	43.9	60.1	76.6	2.7	2.1	3.8	5.4
Goods and Services	130.3	140.1	173.8	3.9	5.7	4.4	7.0
Capital Expenditures	21.6	32.7	71.9	0.4	0.1	0.5	1.3
Net Lending	5.8	10.5	13.2	0.3	0.6	0.8	1.2
Deficit Financing	-8.1	-2.0	22.2	-4.3	-6.6	-16.5	-10.8

Source: NSS of RA.

as % of GDP, per budgetary financing

	2003	2004	2005	2003	2004	2005	2006
	Annual			January			
Tax Revenues, of which	13.1	13.2	13.7	20.9	25.6	28.1	32.1
VAT	6.6	6.2	6.6	11.5	13.8	12.9	13.9
Enterprise Profit Tax	1.1	1.7	2.1	1.5	1.4	3.4	4.9
Personal Income Tax	1.0	1.1	1.2	1.5	1.9	1.9	3.9
Excise Tax	2.4	2.1	1.7	3.4	4.9	4.7	4.6
Grants	0.6	0.5	0.4	-	-	-	0.5
Total Expenditures, of which	14.9	15.6	17.7	17.0	18.1	16.6	23.7
Defense	2.7	2.8	2.9	3.9	6.0	5.0	6.9
Maintenance of Public Order and Security	1.2	1.2	1.5	1.6	2.0	0.7	1.9
Education and Science	2.0	2.4	2.6	1.0	0.3	-	0.6
Public Health	1.2	1.3	1.4	0.004	0.3	-	0.02
Social Insurance and Social Security	1.8	1.9	2.0	3.8	2.3	3.6	5.0
Deficit Financing	0.5	0.1	1.0	8.1	10.7	23.8	14.9

Source: NSS of RA, EDRC calculations.