



# Monthly Economic Trends in Armenia

April 2006

The recent monthly data available as of April, 2006 was used: data for GDP, Gross Production, State Budget and External Sector available refer to February, whereas data for Financial, FOREX and Consumer Markets – to March.

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## Summary of Key Macroeconomic Indicators

	2003	2004	2005	2003	2004	2005	2006
<b>Real sector</b>	Annual			January-February			
GDP Per Capita (in US dollars)	874.4	1,106.7	1,513.7	60.4	74.9	100.3	113.2
GDP Real Growth (%)	14.0	10.1	13.9	7.5	7.4	7.0	7.0
Industry Real Growth (%)	15.6	2.1	7.4	7.9	-5.5	4.3	-1.1
Agriculture Real Growth (%)	4.2	14.5	11.2	6.4	5.8	0.9	2.7
Construction Real Growth (%)	45.5	13.4	35.1	18.1	8.3	14.7	13.3
Transport & Communications Real Growth (%)	8.2	16.9	13.2	13.7	10.8	9.5	12.9
Trade Real Growth (%)	14.1	10.5	9.6	10.4	9.5	5.4	7.8
Services Real Growth (%)	8.6	12.1	10.4	7.1	8.2	12.5	12.3
GDP Deflator (%)	4.6	6.0	3.1	3.4	11.9	6.8	-1.3
CPI (period average, %)	4.7	7.0	0.6	3.4	7.4	4.8	-1.5
<b>Fiscal Sector</b> (State Budget Indicators by Financing)							
Tax Revenues (in billion AMD)	212.2	250.1	304.3	22.5	32.8	41.3	47.3
Expenditures (in billion AMD)	242.0	295.9	395.2	24.3	31.9	38.1	48.1
Deficit (in billion AMD)	-8.1	-2.0	22.2	-2.4	-4.4	-13.7	-7.0
Tax Revenues (as % of GDP)	13.1	13.2	13.7	19.9	24.1	26.5	28.8
Expenditures (as % of GDP)	14.9	15.6	17.7	21.4	23.4	24.5	29.3
Deficit (as % of GDP)	0.5	0.1	1.0	2.1	3.2	8.8	4.3
<b>External Sector</b>							
Exports (FOB, in million US dollars)	685.6	722.9	950.4	85.5	84.8	108.8	113.4
Imports (FOB, in million US dollars)	1,279.5	1,350.7	1,767.9	168.5	173.7	237.9	251.1
Trade Balance (in million US dollars)	-593.9	-627.8	-817.6	-83.0	-89.0	-129.1	-137.7
Exports Growth (%)	35.7	5.4	31.5	11.1	-0.9	28.4	4.2
Imports Growth (%)	29.6	5.6	30.9	27.1	3.1	36.9	5.6
Trade Balance (as % of GDP)	21.2	17.7	16.8	42.8	37.0	40.0	37.8
<b>Monetary Sector</b>							
Broad Money (end-of-period, in billion AMD)	233.8	285.9	365.6	185.4	221.9	268.4	352.7
Net Foreign Assets of CBA (in billion AMD)	157.8	149.3	237.6	123.6	148.2	165.3	212.7
Broad Money Velocity*	6.9	6.6	6.1	0.6	0.6	0.6	0.5
Money Multiplier	2.05	2.18	1.85	1.85	2.13	2.28	1.87

\* Calculated as nominal GDP divided by Broad Money.

Source: NSS of RA, EDRC calculations.

## Financial, Foreign Exchange and Consumer Markets

	2002	2003	2004	2005	Jan	Feb	Mar
	Annual				Monthly indicators 2005		
Securities, Weighted Average Yield (%)							
9 -12 Months Maturity Period	15.6	9.7	-	-	4.9	4.1	4.3
Medium-Term Coupon with Partial Repayment	19.7	-	5.6	-	-	4.9	4.9
CBA Reference Rate of the Banking Interest	19.0	18.0	16.0	16.0	16.0	16.0	15.0
Lending Rate (%)	18.8	20.9	18.2	17.3	16.9	17.1	16.5
Deposit Rate (%)	4.2	6.4	4.4	6.5	6.4	5.9	5.2
Exchange Rate AMD / USD average (growth, %)	3.3	0.9	-7.8	-14.2	0.5	-0.3	0.2
Exchange Rate AMD / USD (end-of-period)	584.9	566.0	485.8	450.2	449.2	450.7	450.9
Exchange Rate AMD / EUR (end-of-period)	606.9	702.2	661.1	532.4	542.7	534.2	545.4
Exchange Rate AMD / RUR (end-of-period)	18.3	19.2	17.5	15.6	16.0	16.0	16.2
CPI (end-of-period, %)	2.0	8.6	2.0	-0.2	3.6	0.2	0.4
Food Goods*	1.9	12.4	2.8	-1.2	5.2	0.2	0.5
Non-Food Goods	2.7	0.4	0.0	2.1	0.0	0.1	0.5
Services	1.5	2.1	0.5	1.9	0.1	0.3	0.0

\* Including tobacco products and alcoholic beverages.

Source: CBA, NSS of RA, EDRC calculations.

## Main Trends

### Real Sector

A 7.0% real growth rate was recorded in January-February, 2006: the same rate as in January-February, 2005. Per capita GDP reached USD 113. As compared to the same period of the last year, per capita GDP increased by USD 13 mostly due to USD exchange rate depreciation. If the exchange rate impact is excluded, per capita GDP would have increase by USD 5.5.

2.5 percentage points of the growth came from the increase in Net Taxes by 14.8%. Services and Trade contributed to the overall growth by 1.8 and 1.2 percentage points respectively, whereas the highest growth rates were recorded in Construction, Transport (and Communications) and Services: respectively, 13.3%, 12.9% and 12.3% as compared to the same period of the last year. Meanwhile, value added in the Industry shrunk by 1.1%.

### Fiscal Sector

According to the preliminary data of the Ministry of Finance and Economy, the Budget expenditures growth during January-February, 2006 was 4 times of that of Budgetary Revenues. Nonetheless, the Revenues-to-GDP ratio exceeded the Expenditures-to-GDP by 4.3 percentage points resulting in a Budget Surplus of about AMD 7 bln.

The increase in Revenues by 6.5% took place mostly due to high growth rates of Capital Revenues, Profit Tax and Income Tax – 5 time, by 51.8% and 53.1% respectively. On the other hand, the Revenues were adversely affected by the decrease in Non-Tax Revenues: in January-February, 2006 these revenues were 3 times lower than in the same period of the previous year, despite the fact that in February only they grew 2.3 times. This has restrained the increase in total Budget Revenues by 10.7 percentage points.

Despite the fact that overwhelming majority of Budget Revenues are collected through the Indirect Taxes on the economy, the increase in Tax Revenues in the first two months of 2006 by 14.5% was mostly the result of increased Profit and Income Tax Revenues. In particular, growth rate of the Income Tax was equal to the sum of growth rates of VAT and Excise Tax revenues.

Bulk of the Budgetary Expenditures in January-February went to Defense, Social, as well as Education and Science sectors. The largest increase in allocations was recorded in Transport (Roads and Communication) and Health sectors: 10.3 and 2 times respectively.

Allocations for procurement of Goods and Services increased by 30.7% as compared to January-February, 2005, while allocations to Current Transfers – by 35.5%. Expenditures on Benefits and Students Allowances increased also twice in the group of Current Transfers, while Expenditures on Pensions decreased by 27%. The major shifts in the structure of Budget Expenditures during these months were the increase in the share of Capital Expenditures in the total by 2.4 percentage points and the decrease in the share of Subsidies by 4.4%.

### Foreign Trade

In January-February 2006, Imports grew at 1.3 percentage points higher rate than Exports. Shares of both Export and Imports in the GDP decrease by 2.6 and 4.9 percentage points, resulting in improvement of the Trade Balance-to-GDP ratio which reached 37.8%. The Trade Balance, however, worsened by 6.7% during January-February, 2006 in comparison to the same months of 2005.

The increase in Exports by 4.2% during the first two months of 2006 was mostly the result of the increased exports of raw materials and natural resources and processed food by 23.9% and 79.6% respectively. The Increase in Imports by 5.6%, in turn, was the result of increased imports of raw materials and resources, as well as transportation means (air, water and overland) by 12.4% and 26.5% respectively. Reduction in both imports and exports of precious and semi-precious stones, that historically constitute an large share in the Foreign Trade of Armenia, decreased by 16.4% and 28.6% respectively, and resulted in an overall reduction of both Total Exports and Imports by 6.6 and 7.7 percentage points.

The Humanitarian Assistance imported to Armenia in January-February 2006, equaled USD 4.6 mln (1,594.9 tones) and mostly consisted of paper (and paper products) - 25.5%, as well as, semi-precious stones - 19.6%. In monetary terms, the

largest increase was recorded in imports of paper (and paper products) and products of vegetable origin: 648 and 65 times respectively.

### **Monetary Sector**

According to the preliminary data of the CBA, the Broad Money decreased by AMD 1.9 bln during February which is mostly explained by the reduction of foreign-currency deposits by AMD 3.6 bln. Simultaneously, the Currency outside the banking sector and Dram deposits increased by AMD 0.3 bln and AMD 1.3 bln respectively.

As compared to February 2005, the Broad Money grew by 31.4% accompanied with a shrink of the Money Multiplier 1.2 times (it equaled 1.87 in February 2005 against 2.21 in February 2006). The latter is the consequence of the increase in the Reserve Money by 60.1%.

### **Exchange Rates**

The Dram, in general, depreciated against EUR and RUR during March, 2006. As for the exchange rate against USD, it depreciated during the first fortnight of March, then a slight appreciation during the third week was followed by depreciation in the last week. The highest exchange rates of USD, EUR and RUR during March were AMD 453.2, AMD 540.1 and AMD 16.2 respectively.

The Dram depreciated as compared to December, 2005: by AMD 0.7 against USD, by AMD 13.1 against EUR and AMD 0.6 – against RUR.

### **Consumer Market**

A 0.4% inflation was recorded in the Consumer prices during March, 2006, including a 0.5% inflation in prices for Food- and Non-Food Products, while the prices for Services remained unchanged.

Among Food Products, prices for fish products increased most (21.2%), followed by the prices for sugar (7.2%). Simultaneously, prices for eggs decreased by 5.6% and for vegetables and potato - by 1.9%.

Among Non-Food Products, the increases in prices for jewelry (5.2%) and detergent (2.7%) were the largest.

Prices for telephone services grew by 2.2%, whereas prices for leisure services – by 1.3%. Simultaneously, the prices for cultural services and healthcare decreased by 3.4% and 1.7% respectively.

As a result, Consumer prices by the end of March grew by 4.2% as compared to December, 2005, whereas the average price level during January-March, 2006 decreased by 0.9% in comparison to the price level in the same period of the last year.

GDP deflator during January-February was negative: -1.3%. A negative deflator, as a whole, reflects the decrease in prices for final products included in the GDP in comparison to the same period of the previous year.

## Main Budgetary Indicators

AMD billion, per budgetary financing

	2003	2004	2005	2003	2004	2005	2006
	Annual			January-February			
<b>State Budget Total Revenues and Grants</b>	<b>250.1</b>	<b>297.9</b>	<b>372.9</b>	<b>26.7</b>	<b>36.3</b>	<b>51.8</b>	<b>55.1</b>
<b>Total Revenues</b>	<b>240.2</b>	<b>288.2</b>	<b>363.1</b>	<b>26.7</b>	<b>36.3</b>	<b>51.8</b>	<b>54.7</b>
Current Revenues	237.0	279.1	350.7	25.3	36.2	51.6	52.2
Tax Revenues, of which	212.2	250.1	304.3	22.5	32.8	41.3	47.3
VAT	107.8	117.9	146.8	12.1	17.0	21.3	22.1
Enterprise Profit Tax	17.6	32.0	46.6	1.8	2.5	4.1	6.2
Personal Income Tax	16.8	20.4	26.6	1.8	2.5	3.3	5.1
Excise Tax	39.1	40.7	38.6	3.6	6.1	5.5	6.5
State Duties	15.2	16.9	17.3	1.2	1.9	1.9	2.1
Non-Tax Revenues	9.5	12.0	29.2	1.5	1.4	8.4	2.9
Capital Revenues	3.2	9.1	12.4	1.4	0.2	0.2	2.5
<b>Grants</b>	<b>9.9</b>	<b>9.7</b>	<b>9.8</b>	-	-	-	<b>0.4</b>
<b>State Budget Total Expenditures</b>	<b>242.0</b>	<b>295.9</b>	<b>395.2</b>	<b>24.3</b>	<b>31.9</b>	<b>38.1</b>	<b>48.1</b>
Defense	44.3	52.5	64.4	4.5	4.1	7.4	9.2
Maintenance of Public Order and Security	19.9	23.2	33.3	2.2	1.6	3.2	3.8
Education and Science	32.9	45.2	58.8	3.2	3.4	4.7	6.4
Public Health	18.9	24.3	30.4	2.0	2.8	2.0	3.9
Social Insurance and Social Security	29.3	35.3	44.1	4.1	2.8	6.6	7.5
<b>Current Expenditures</b>	<b>214.5</b>	<b>252.8</b>	<b>310.1</b>	<b>22.8</b>	<b>30.2</b>	<b>34.1</b>	<b>42.2</b>
Wages	13.9	24.3	33.2	0.9	2.9	3.5	4.4
Interest Payments	11.3	9.8	9.9	1.3	1.2	1.2	1.1
Subsidies	15.1	18.4	16.5	1.9	2.6	3.0	1.7
Transfers	43.9	60.1	76.6	5.9	5.9	9.5	12.9
Goods and Services	130.3	140.1	173.8	12.9	17.7	16.9	22.1
<b>Capital Expenditures</b>	<b>21.6</b>	<b>32.7</b>	<b>71.9</b>	<b>0.6</b>	<b>0.4</b>	<b>2.0</b>	<b>3.7</b>
<b>Net Lending</b>	<b>5.8</b>	<b>10.5</b>	<b>13.2</b>	<b>0.9</b>	<b>1.3</b>	<b>2.0</b>	<b>2.3</b>
<b>Deficit Financing</b>	<b>-8.1</b>	<b>-2.0</b>	<b>22.2</b>	<b>-2.4</b>	<b>-4.4</b>	<b>-13.7</b>	<b>-7.0</b>

Source: NSS of RA.

as % of GDP, per budgetary financing

	2003	2004	2005	2003	2004	2005	2006
	Annual			January-February			
<b>Tax Revenues, of which</b>	<b>13.1</b>	<b>13.2</b>	<b>13.7</b>	<b>19.9</b>	<b>24.1</b>	<b>26.5</b>	<b>28.8</b>
VAT	6.6	6.2	6.6	10.7	12.5	13.7	13.5
Enterprise Profit Tax	1.1	1.7	2.1	1.6	1.8	2.6	3.8
Personal Income Tax	1.0	1.1	1.2	1.6	1.8	2.1	3.1
Excise Tax	2.4	2.1	1.7	3.2	4.5	3.5	3.9
<b>Grants</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>	-	-	-	<b>0.2</b>
<b>Total Expenditures, of which</b>	<b>14.9</b>	<b>15.6</b>	<b>17.7</b>	<b>21.4</b>	<b>15.3</b>	<b>24.5</b>	<b>29.3</b>
Defense	2.7	2.8	2.9	4.0	3.0	4.7	5.6
Maintenance of Public Order and Security	1.2	1.2	1.5	2.0	1.2	2.1	2.3
Education and Science	2.0	2.4	2.6	2.8	2.5	3.0	3.9
Public Health	1.2	1.3	1.4	1.8	2.1	1.3	2.3
Social Insurance and Social Security	1.8	1.9	2.0	3.6	2.0	4.2	4.6
<b>Deficit Financing</b>	<b>0.5</b>	<b>0.1</b>	<b>1.0</b>	<b>2.1</b>	<b>3.2</b>	<b>8.8</b>	<b>4.3</b>

Source: NSS of RA, EDRC calculations.