



Monthly Economic Trends in Armenia

May 2006

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

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Summary of Key Macroeconomic Indicators

	2003	2004	2005	2003	2004	2005	2006
Real sector	Annual			January-March			
GDP Per Capita (in US dollars)	874.4	1,113.4	1,524.6	100.8	119.7	162.3	183.3
GDP Real Growth (%)	14.0	10.5	14.0	12.5	7.8	7.8	8.0
Industry Real Growth (%)	15.6	2.2	7.4	10.8	3.2	3.9	-5.1
Agriculture Real Growth (%)	4.2	14.2	11.2	6.6	5.9	1.1	3.5
Construction Real Growth (%)	45.5	15.3	35.1	34.5	16.9	16.0	25.0
Transport & Communications Real Growth (%)	8.3	19.5	13.2	12.6	14.2	10.6	15.8
Trade Real Growth (%)	14.1	10.6	9.6	10.3	9.6	3.5	15.5
Services Real Growth (%)	8.6	11.7	10.9	14.0	16.5	9.1	13.4
GDP Deflator (%)	4.6	6.3	3.2	3.6	6.2	6.2	-1.0
CPI (period average, %)	4.7	7.0	0.6	3.4	7.9	4.4	-0.9
Fiscal Sector (<i>State Budget Indicators by Financing</i>)							
Tax Revenues (in billion AMD)	212.2	250.1	304.3	42.7	50.2	61.0	70.9
Expenditures (in billion AMD)	242.0	295.9	395.2	44.5	57.2	64.0	80.0
Deficit (in billion AMD)	-8.1	-2.0	22.2	-3.7	0.5	-13.4	-2.2
Tax Revenues (as % of GDP)	13.1	13.1	13.6	22.5	23.1	24.5	26.6
Expenditures (as % of GDP)	14.9	15.5	17.6	23.4	26.3	25.7	30.0
Deficit (as % of GDP)	0.5	0.1	1.0	2.0	0.2	5.4	0.8
External Sector							
Exports (FOB, in million US dollars)	685.6	722.9	950.4	132.9	151.9	195.3	184.4
Imports (FOB, in million US dollars)	1,279.5	1,350.7	1,767.9	256.8	290.3	371.5	422.0
Trade Balance (in million US dollars)	-593.9	-627.8	-817.6	-123.9	-138.5	-176.2	-237.6
Exports Growth (%)	35.7	5.4	31.5	10.7	14.3	28.6	-5.6
Imports Growth (%)	29.6	5.6	30.9	25.6	13.1	27.9	13.6
Trade Balance (as % of GDP)	21.2	17.6	16.7	38.3	36.0	33.8	40.3
Monetary Sector							
Broad Money (end-of-period, in billion AMD)	233.8	285.9	365.6	183.3	226.6	278.8	358.5
Net Foreign Assets of CBA (in billion AMD)	157.8	149.3	237.6	116.3	145.5	171.4	211.7
Broad Money Velocity*	6.9	6.7	6.1	1.0	1.0	0.9	0.7
Money Multiplier	2.05	2.18	1.85	1.90	2.17	2.24	1.88

* 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	Apr
	Annual				Monthly indicators 2005			
Securities, Weighted Average Yield (%)								
9 -12 Months Maturity Period	15.6	9.7	-	-	4.9	4.1	4.3	4.8
Medium-Term Coupon with Partial Repayment	19.7	-	5.6	-	-	4.9	4.9	6.5
CBA Reference Rate of the Banking Interest	19.0	18.0	16.0	16.0	16.0	16.0	15.0	15.0
Lending Rate (%)	18.8	20.9	18.2	17.3	16.9	17.1	16.5	16.3
Deposit Rate (%)	4.2	6.4	4.4	6.5	6.4	5.9	5.2	5.6
Exchange Rate AMD / USD average (growth, %)	3.3	0.9	-7.8	-14.2	0.5	-0.3	0.2	-0.2
Exchange Rate AMD / USD (end-of-period)	584.9	566.0	485.8	450.2	449.2	450.7	450.9	446.1
Exchange Rate AMD / EUR (end-of-period)	606.9	702.2	661.1	532.4	542.7	534.2	545.4	553.8
Exchange Rate AMD / RUR (end-of-period)	18.3	19.2	17.5	15.6	16.0	16.0	16.2	16.3
CPI (end-of-period, %)**	2.0	8.6	2.0	-0.2	2.5	0.2	0.1	0.3
Food Goods*	1.9	12.4	2.8	-1.2	4.6	-0.1	0.2	0.0
Non-Food Goods	2.7	0.4	0.0	2.1	-0.2	-0.1	0.2	1.0
Services	1.5	2.1	0.5	1.9	0.2	1.0	-0.2	0.4

* Including tobacco products and alcoholic beverages. Source: CBA, NSS of RA, EDRC calculations.

** Data for January-March, 2006 were adjusted by NSS of RA in April, 2006.

Main Trends

Real Sector

During the first quarter of 2006, per capita GDP in Armenia was recorded to equal USD 183, thus having increased by USD 21 as compared to the same quarter or the previous year.

Trade, Services and Construction contributed the most to the 8% real growth recorded during January-March, 2006 – by 2.6, 2.2 and 1.9 percentage points respectively. The highest growth rate was recorded in Construction – 25%. Simultaneously, value added in industry decreased by 5.1%:

43% of the GDP was created from the services, 41.2% - from manufacturing and 15.8% - from net indirect taxes (subsidies excluded).

Fiscal Sector

According to the preliminary data of the MFE, during the first quarter of 2006 the Government Budget expenditures grew at 4 times higher rate than the Government revenues. Nonetheless, the Revenues-to-GDP ratio exceeded the Expenditures-to-GDP ratio by 0.8 percentage points, thus resulting in budget surplus of AMD 2.2 bln.

Although the revenues in the first quarter increased by about AMD 5 bln (or 6%) as compared to the same period of 2005, the growth rate decelerated about 6 times. That mostly took place due to reduction in non-tax revenues (2.2 times) and official transfers (6.6 times), as well as due modest growth in VAT revenues (1.7%), which is the lowest growth rate for VAT during the recent 5 years. Tax revenues grew by 16.2% mostly boosted by the increased Profit and Income tax revenues (by 8 and 4 percentage points), whereas VAT contributed only to 0.7 percentage points reducing from 12.9 percentage points in the same quarter of the previous year.

As compared to the first quarter 2005, Expenditures increased by 24.9%, mostly due to increased expenditures in Defense, Education (and Science), Health and Transport (Roads and Communication) sector.

Purchases of goods and services by the public sector, as well as transfers grew by 25%. It is worth noting that these two expenditure subgroups took 72% of total budget expenditures. The highest growth rate – 71.3% - was recorded in allocations to capital expenditures which constituted 7.6% of total budget expenditures in Q1.

Foreign Trade

Exports of goods in the first quarter of 2006, as compared to the same quarter of 2005, decreased by 5.6%. Simultaneously, imports increased by 13.6%. These developments resulted in worsened trade balance (by USD 61 mln or 35%) and reached 4 % of the GDP.

The reduction in exports was conditioned by decreased exports to almost all counterpart countries, including Germany (by 11.4%), Belgium (by 4.8%), Russia (by 4.4%), Israel (by 32.1%). Exports to these countries constitute more than half of total Armenian exports.

33% of imports came from CIS countries, while 27% - from EU countries. As compared to January-March 2005, imports from Russia grew by 32%, from the Ukraine – by 51% and from Germany – by 61%.

Humanitarian assistance worth of USD 10.1 mln was imported to Armenia representing a 12% reduction from the humanitarian assistance during the same period of 2005. 73% of humanitarian assistance came from the USA.

Monetary Sector

According to the preliminary data of the CBA, the Broad Money increased by AMD 1.6% during March and reached AMD 368.5 bln. Cash outside the banking sector decreased by AMD 0.8 bln, while the deposits, both Dram and FOREX, increased by 3.7% and 2.5% respectively.

As compared to end-March, 2005, the Broad Money has increased by 28.6%, including demand and savings deposits grew by 51.6% and 43.7% respectively, whereas the FOREX deposits grew by 10.7%. As a consequence, the ratio of FOREX deposits to Dram Deposits has improved: if this ratio equaled 2.5 in March, 2005, it declined to 1.8 by the end of March, 2006.

Exchange Rates

The Dram appreciated against the US dollar during April, 2006, whereas it depreciated against the EUR and RUR. The maximum levels of exchange rates during the month of April reached AMD 451.6, AMD 555.8 and AMD 16.4 respectively against the above mentioned currencies. The largest fluctuation was recorded in EUR exchange rate – AMD 12 or 2.2%.

As compared to end-December 2005, end-April 2006 exchange rates displayed similar trend: the Dram appreciated against the US dollar (by about 1%) and depreciated against the EUR and RUR by 4% and 3.3% respectively.

Consumer Market

A 0.3% inflation was recorded in the consumer prices during April, 2006: prices for non-food products and services increased by 1% and 0.4% respectively.

Although the prices for food products in general remained relatively unchanged, prices for some of the food products displayed significant fluctuations. The most prominent among them, probably, were recorded in prices for fish and sugar by 26.7% and 8% respectively. Simultaneously, prices for vegetables and potatoes fell by 5.2%, whereas those for eggs - by 4.8%.

Consumer prices increased by 3.1% during the end of the previous year and end of April, 2006, whereas the level of prices during January-April 2006 decreased by 1.5% in comparison with their level in January-April 2005.

In April 2006, the National Statistical Service amended and modified the methodology of index calculation for consumer prices. 70 additional consumer goods and services were included in the consumer basket, thus, the total number of goods and services in the basket reached 470. Simultaneously, prices in the city of Artashat in Ararat Province (Marz) were added to the calculation of the average national price indices.

The GDP deflator continued to display the recent trend during the first quarter of 2006: it is again was negative and equaled -1%.

Main Budgetary Indicators

AMD billion, per budgetary financing

	2003	2004	2005	2003	2004	2005	2006
	Annual			January-March			
State Budget Total Revenues and Grants	250.1	297.9	372.9	48.2	56.7	77.4	82.1
Total Revenues	240.2	288.2	363.1	48.1	56.7	74.5	81.7
Current Revenues	237.0	279.1	350.7	46.6	56.4	74.0	79.1
Tax Revenues, of which	212.2	250.1	304.3	42.7	50.2	61.0	70.9
VAT	107.8	117.9	146.8	23.0	24.8	31.3	31.8
Enterprise Profit Tax	17.6	32.0	46.6	3.5	4.9	6.7	11.5
Personal Income Tax	16.8	20.4	26.6	3.4	4.1	5.2	7.6
Excise Tax	39.1	40.7	38.6	7.5	9.1	8.0	9.0
State Duties	15.2	16.9	17.3	2.8	3.3	3.2	3.7
Non-Tax Revenues	9.5	12.0	29.2	1.1	2.8	9.9	4.6
Capital Revenues	3.2	9.1	12.4	1.6	0.3	0.5	2.6
Grants	9.9	9.7	9.8	0.1	-	2.9	0.4
State Budget Total Expenditures	242.0	295.9	395.2	44.5	57.2	64.0	80.0
Defense	44.3	52.5	64.4	7.5	10.3	11.3	14.7
Maintenance of Public Order and Security	19.9	23.2	33.3	3.8	4.6	5.4	6.6
Education and Science	32.9	45.2	58.8	5.5	7.5	9.9	12.7
Public Health	18.9	24.3	30.4	4.5	4.8	4.2	6.3
Social Insurance and Social Security	29.3	35.3	44.1	6.4	8.2	10.2	11.6
Current Expenditures	214.5	252.8	310.1	42.0	52.8	57.7	70.5
Wages	13.9	24.3	33.2	1.7	4.7	6.2	7.7
Interest Payments	11.3	9.8	9.9	3.4	2.4	2.2	2.4
Subsidies	15.1	18.4	16.5	3.5	6.3	3.6	3.2
Transfers	43.9	60.1	76.6	8.3	11.2	15.6	19.5
Goods and Services	130.3	140.1	173.8	25.1	28.1	30.1	37.7
Capital Expenditures	21.6	32.7	71.9	0.9	2.4	3.5	6.1
Net Lending	5.8	10.5	13.2	1.6	2.1	2.8	3.4
Deficit Financing	-8.1	-2.0	22.2	-3.7	0.5	-13.4	-2.2

Source: NSS of RA.

as % of GDP, per budgetary financing

	2003	2004	2005	2003	2004	2005	2006
	Annual			January-March			
Tax Revenues, of which	13.1	13.1	13.6	22.5	23.1	24.5	26.6
VAT	6.6	6.2	6.5	12.1	11.4	12.6	12.0
Enterprise Profit Tax	1.1	1.7	2.1	1.9	2.2	2.7	4.3
Personal Income Tax	1.0	1.1	1.2	1.8	1.9	2.1	2.9
Excise Tax	2.4	2.1	1.7	3.9	4.2	3.2	3.4
Grants	0.6	0.5	0.4	0.03	-	1.2	0.2
Total Expenditures, of which	14.9	15.5	17.6	23.4	26.3	25.7	30.0
Defense	2.7	2.8	2.9	3.9	4.7	4.5	5.5
Maintenance of Public Order and Security	1.2	1.2	1.5	2.0	2.1	2.2	2.5
Education and Science	2.0	2.4	2.6	2.9	3.4	4.0	4.8
Public Health	1.2	1.3	1.4	2.4	2.2	1.7	2.4
Social Insurance and Social Security	1.8	1.9	2.0	3.4	3.8	4.1	4.4
Deficit Financing	0.5	0.1	1.0	2.0	0.2	5.4	0.8

Source: NSS of RA, EDRC calculations.