

Macroeconomic Trends and Forecast

Republic of Armenia

Research Department

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Summary

Trends:

- GDP decreases in 2020H1 by 5.7% after growing by 7.6% in 2019
 - ✓ COVID-19 outbreak (both global and domestic)
 - ✓ Hotels and restaurants, construction, real estate, trade industries sharply contract activity
- Inflation is low at 1.8% in August 2020 (0.7% at end-2019)
 - ✓ Consumers' demand contained
 - ✓ Food price growth is the main pro-inflationary factor
- Reduction of policy rate by 1 pp in 2020H1 to 4.5% in August 2020
- Budget deficit
 - ✓ Pandemic-related expenditures

Forecast 2020-2022:

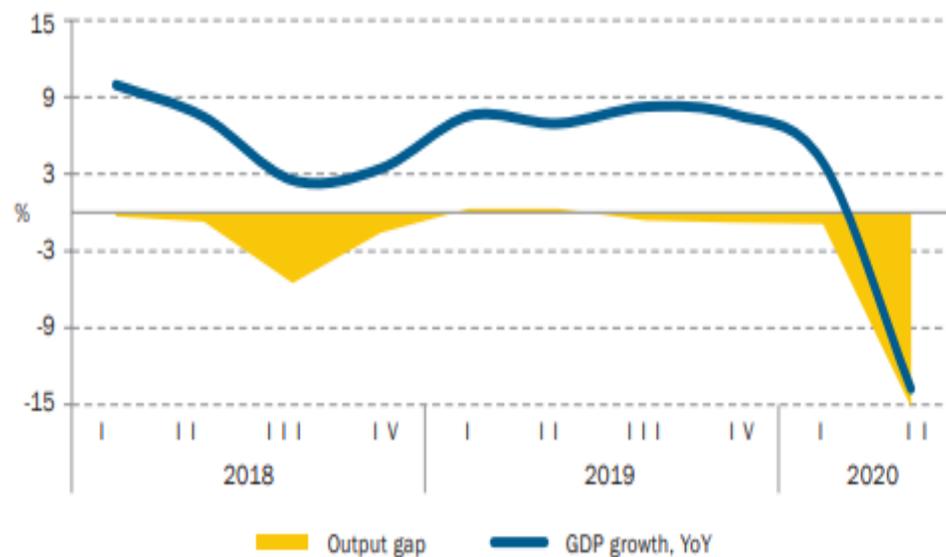
- GDP drops by 3.5% in 2020
 - ✓ Weak internal and external demand
 - ✓ Risk of additional contraction against the backdrop of new COVID-19 flare-ups, tense geopolitical situation
- GDP growth recovery in 2021–2022
- Inflation at 1.7% in 2020
 - ✓ Demand contained
- Inflation within the CB RA target interval in 2021–2022
- Policy rate reduction in 2020-2021, pick-up starting in the end-2021

Real Sector. Economic Growth Accelerates

GDP decreases in 2020H1 by **5.7%** after growing by 7.6% in 2019:

- Trade and services adversely affected by anti-coronavirus restrictions
- Inflow of remittances shrinks
- Banking credit contracts
- Export sales drop
- + Production growth in mining and agriculture

Economic Activity



Source: National stat. agency, authors' calculations

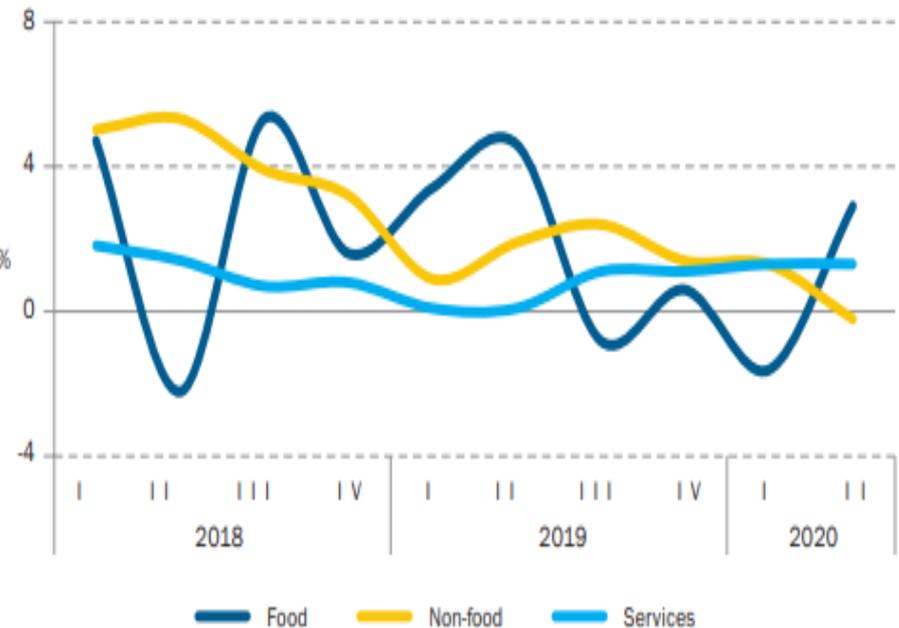
Inflation. Consumer Price Growth Below CB RA targets

The CPI growth rate was **1.7% YoY in August 2020** (0.7% YoY in December 2019):

- + Food price growth
- + Medical and education services' price growth
- Consumers' demand drops

Dram's relative stability against the U.S. dollar puts downward pressure on inflation

Inflation
(the last month in the quarter vs. the last month of the same quarter the year before)



Source: National Stat. Agency

External Sector. Smaller Current Account Deficit

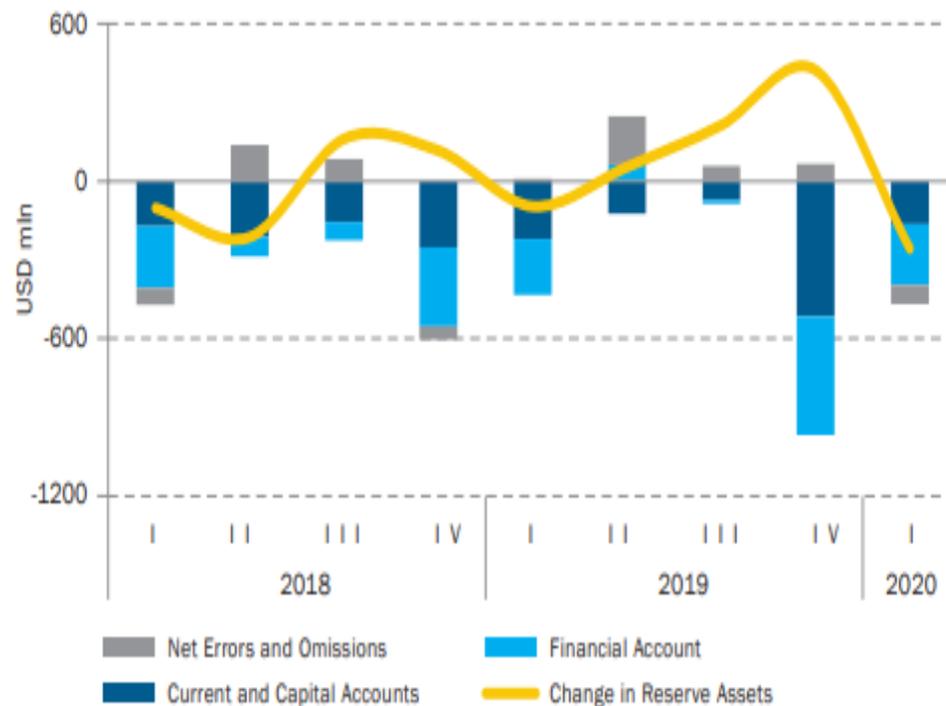
The current account deficit decreases:

- + Imports drop more than exports
- + Smaller payments to investors
- Inflow of remittances decreases

Higher physical volumes of sales of metal ores to abroad affect the balance of trade positively

The role of EAEU countries as a market for exports decreased, as a source of imports - increased

Balance of Payments



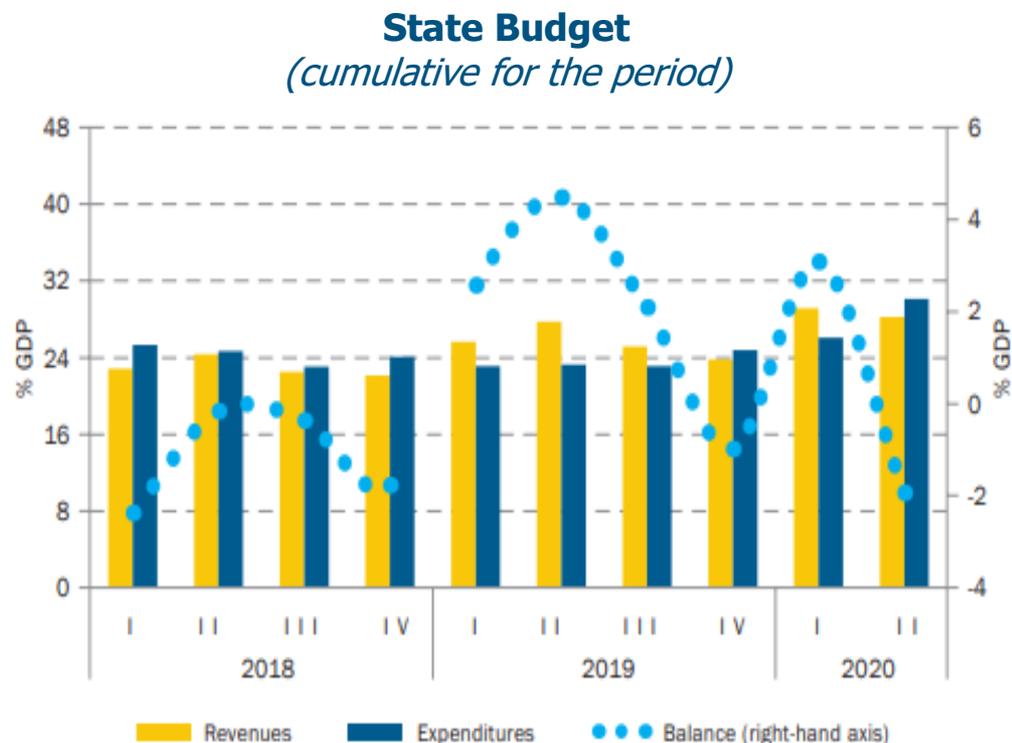
Source: CB RA

Fiscal Sector. Deficit expands

The state budget's deficit in 2020H1 – **1.0% of GDP** (surplus of 4.5% of GDP in 2019H1):

— Reduction of revenues during the pandemic

Public debt grows relative to GDP (public debt increased to 58.4% of GDP by the mid-2020 from 53.5% on the end-2019)



Source: Ministry of Finance, authors' calculations

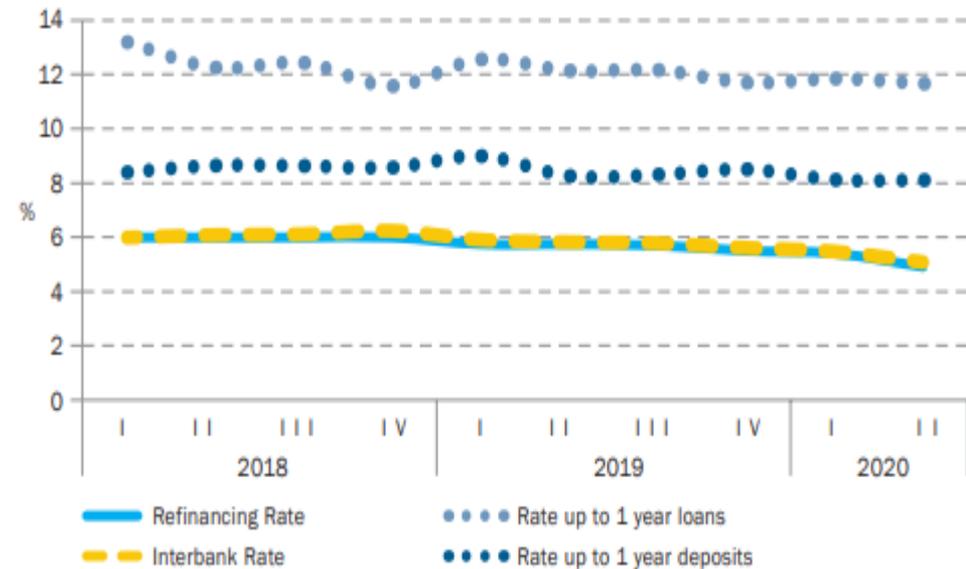
Monetary Sector. Reduction of Refinancing Rate

Reduction of policy rate to 4.25 pp in August 2020 from 5.5% in end-2019:

- Food prices show signs of stabilizing
- Reduced demand in the economy

Inflation back inside the target interval ($4 \pm 1.5\%$) in 2020H2

Interest Rates
(period average)



Source: CB RA, authors' calculations

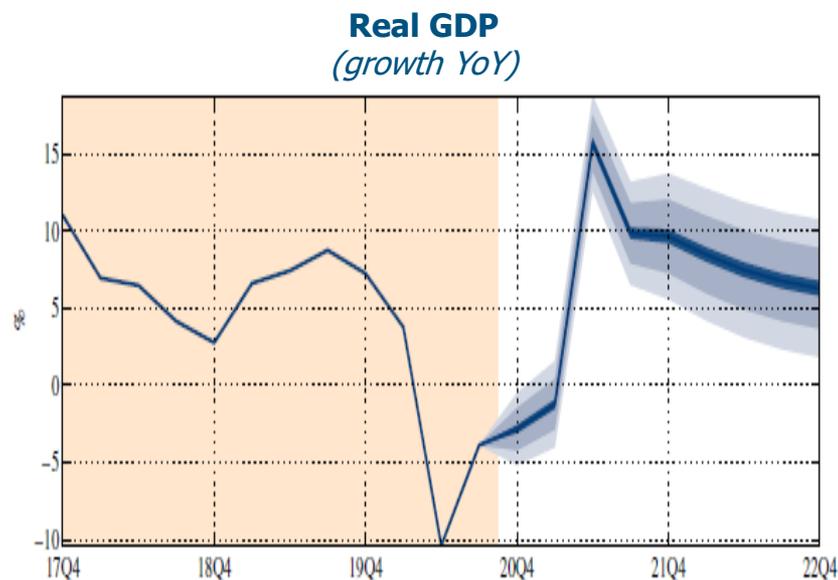
Forecast. GDP Decrease in 2020

GDP is expected to drop by **3.5%** in 2020:

- Consequences of the COVID-19 pandemic
- + Support by donors

Recovery of economic activity in 2021–2022:

- + World economy and markets stabilize
- + Higher inflow of remittances
- + High potential growth rate of economy



Source: authors' calculations

Forecast. Inflation to Stay Low Until Mid-2021

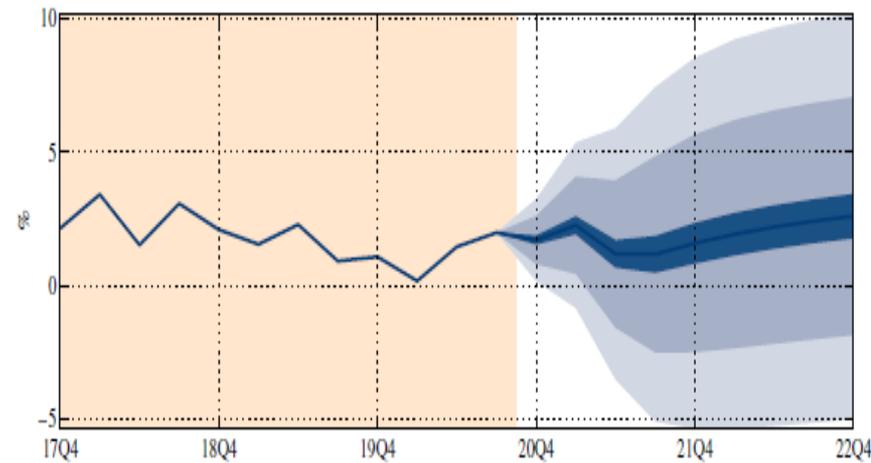
Inflation at **1.7%** in 2020 (below CB RA target interval):

- Disinflationary impact of domestic demand contraction
- Low energy prices
- National currency stable

Inflation back to target (4%) in 2022:

- + Demand expansion

Inflation
(for each period, YoY)

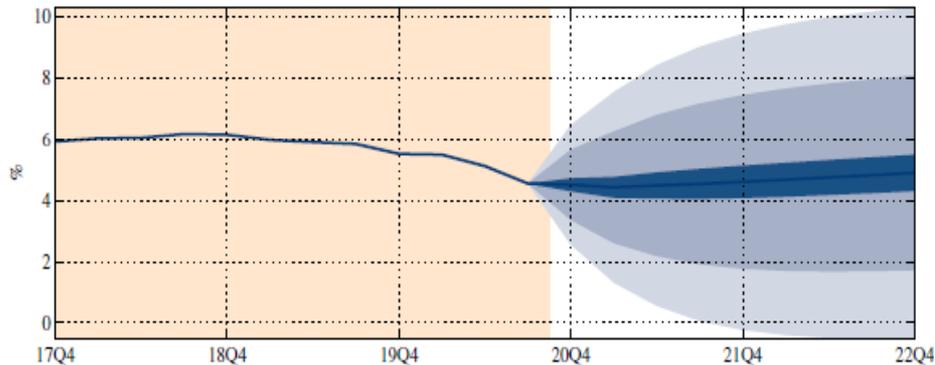


Source: authors' calculations

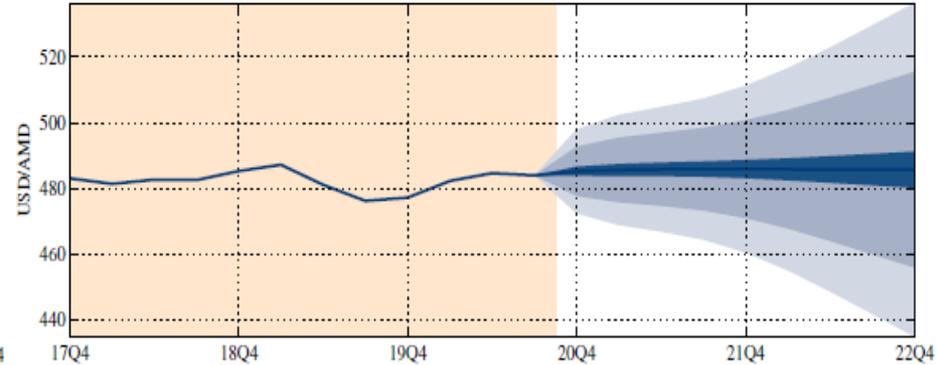
Forecast. Policy rate reduction potential in 2021-2022

- The EDB's forecasts assume monetary policy to remain stimulative in the medium term, factoring in the weak inflationary background. In our base case, we expect a round of refinancing rate rises to commence at the end of 2021.
- The dram is expected to maintain a stable exchange rate against the U.S. dollar in the medium term. An increase in export revenues, as well as an increase in foreign investment and remittances in 2021–2022, will be drivers behind the national currency's stability.

Refinancing Rate
(period average)



Dram Exchange rate Versus the U.S. Dollar
(AMD per USD)



Source: authors' calculations

Forecast. Key Macroeconomic Indicators

	2017	2018	2019	2020F	2021F	2022F
GDP in constant prices (% growth YoY)	7.5	5.2	7.6	-3.5	8.3	7.2
Consumer price index (% growth at end of year)	2.6	1.8	0.7	1.7	1.5	2.6
Refinancing rate (%, the year's average)	5.9	6.1	5.8	4.9	4.5	4.8
Exchange rate of national currency to U.S. dollar (the year's average)	483	483	480	484	486	486

Source: authors' calculations