Summary

Basic facts:
• Economic growth accelerates to 6.8% YoY in 2019H1
  ✓ Strong consumption by households
  ✓ Recovery in mining sector
• Inflation below CBRA target interval (4+/-1.5%)
  ✓ Dram appreciates to the currencies of the main trading partners
  ✓ Non-food inflation decelerates
• Refinancing rate cut twice - in January and September 2019
• State budget balance is positive in 2019H1 (first time since 2014)

Forecast (2019-2021):
• GDP growth at 6.5% в 2019 г.
  ✓ Wage and credit growth
  ✓ Mining sector recover
• GDP growth at 5% in 2020-2021
  ✓ Better investment climate
  ✓ Looser state budget
• Inflation returns to CBRA’s target interval
• Refinancing rate up in line with inflation
Real Sector. GDP growth accelerates

Real GDP increases by 6.8% YoY in 2019H1 (5.2% in 2018)

+ Strong consumption by households
+/− Uneven investment growth

On the supply side:
+ Mining sector (extraction of ores)
+ Manufacturing
− Agriculture

Sources: Nat. statistical authority, authors calculations, EEC
Inflation remains below the CBRA’s target interval (4+/−1.5%)

- Food price inflation accelerates
- Non-food inflation speeds down
- Dram appreciates to the currencies of trading partners of RA

Sources: Nat. statistical authority, CBRA
External Sector. Current account deficit expands

Trade balance deficit is stable

+ Exports of food expand, imports contract as domestic production grows
  - Imports of mineral products expands

Income balance deteriorates

- Economic slowdown in Russia

Balance of payments (for the period)

Source: Nat. statistical authority, CBRA
Fiscal sector. State budget is in surplus

State budget surplus at **4,5% ВВП** in **2019H1** (first surplus for H1 since 2014)

+ Income expands (better collection of taxes)
- Expenditures to GDP ratio decreases to 23,4% from 24,6% in 2018H1

Источник: Nat. statistical authority, authors’ calculation
Monetary sector. Refinancing rate decreases

Refinancing rate cut by 0.25 pp to 5.75% in January 2019 and to 5.5% in September 2019

- Inflation below target interval

Credit growth slows down – credit in foreign currencies shrinks

Credit and deposit de-dollarization

Dram appreciates in nominal and real terms

Source: CBRA, author’s estimations
Forecast. Economic growth accelerates in 2019

EDB expects real GDP growth at **6.5%** in 2019:

+ Consumption expands with wage and credit growth
+ Agricultural and mining sectors recover

**2020-2021** real GDP growth continues at around **5%**

+ State takes steps to improve investment climate
+ Budget expenditures expand

Source: authors’ calculations, EEC
Forecast. Inflation speeds up over 2020-2021

Inflation at **1,2%** in 2019

+ Internal demand expands

Inflation within the CBRA’s target interval (4+/1,5%) by the end of 2020-2021

Inflation
*(period to the same period of the previous year)*

Source: authors’ calculations, EEC
Forecast. Refinancing rate increases in line with inflation

Refinancing rate begins to increase in 2021
Dram is stable in the mid-run
Forecast. Key macroeconomic indicators

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<tr>
<td><strong>GDP in constant prices</strong> (% growth YoY)</td>
<td>0.2</td>
<td>7.5</td>
<td>5.2</td>
<td>6.5</td>
<td>4.8</td>
<td>5.6</td>
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<td><strong>Consumer price index</strong> (% growth in December to previous year’s December)</td>
<td>-1.1</td>
<td>2.6</td>
<td>1.8</td>
<td>1.2</td>
<td>2.7</td>
<td>3.9</td>
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<td><strong>1 Day Interbank Loans in National Currency</strong></td>
<td>7.6</td>
<td>5.9</td>
<td>6.1</td>
<td>6.0</td>
<td>6.0</td>
<td>6.7</td>
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<td>(the year’s average % per annum)</td>
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<td><strong>Nominal Armenian Dram to U. S. Dollar Exchange Rate,</strong> (AMD per USD)</td>
<td>480</td>
<td>483</td>
<td>483</td>
<td>480</td>
<td>478</td>
<td>484</td>
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Sources: National agencies, authors’ calculations, EEC
F- forecast