Summary

Trends:

- Growth accelerated to 7.6% in 2019 (after 5.2% in 2018)
  - Household consumption expansion
  - Recovery in mining sector
- Inflation was 0.7% YoY – below CBRA target
  - Strengthened dram
  - Weak price situation abroad
  - Consumption structure and commodity market pricing
- Refinancing rate cut by 0.25 pp twice in 2019 (to 5.5% p.a.)
- Narrowing budget deficit
  - Improved tax collection
  - As a result public debt decreased by 2.2 p.p. to 53.6% in GDP

Forecast 2020-2022:

- GDP decline by 1.7% in 2020
  - Negative impact of COVID-19 pandemic
- Growth rebound up to 7.3% in 2021 – 2022
- Deflation by 1.0% in 2020
  - Weak domestic demand
  - Decrease in import prices
- Inflation recovery over 2021-2022
- Policy rate around 4.0-4.8% in the medium term
Real Sector. Accelerated economic growth

Economy grew by 7.6% (5.2% in 2018):

- Decrease in agricultural production
+ Household consumption expansion
+ Recovery in mining sector

Most of the main sectors, mainly industry, construction, trade and services, contributed positively to economic growth.

Source: National Statistical Committee, authors’ calculations, EEC
Inflation was 0.7% YoY in December (1.8% in 2018):

- Strengthened dram
- Weak price situation abroad
- Consumption structure and prices in commodity markets

The weak inflation was also due to a shift in household demand from soft goods to durables and an improved competitive situation in goods markets.

Source: National Statistical Committee, CBRA
External Sector. Narrowing current account deficit

Smaller CA deficit resulted from:

+ Increase of primary income balance
+ Decrease in negative balance of trade in goods due to higher physical volumes of exports

Improved economic activity in RF in the second half of 2019 caused higher net inflow of remittances.

Source: National Statistical Committee, CBRA
Fiscal Sector. Narrowing budget deficit

The state budget deficit decreased to **1.0% in GDP in 2019** (1.8% in 2018):

- Growth of tax and duty revenues assisted by measures taken to improve tax collection

Armenia’s public debt decreased to 53.6% of GDP by the end of 2019 (55.8% of GDP as of the end of 2018).

Source: MF RA, authors’ calculations
Monetary Sector. Lower refinancing rate

Refinancing rate was reduced twice by 0.25 pp, to reach 5.5% in 2019:

- Slow inflation in external sector
- Prevailing disinflationary risks

In 2019, RA Central Bank conducted an accommodative monetary policy amid low inflation, focusing on a gradual return of consumer price index to the target range of 4±1.5%

Source: CB RA, authors’ calculations
Forecast. Decrease of Economic Activity in 2020

GDP growth is expected to decline by 1.7% in 2020:

- Subdued demand as economic activity in the world decreases, remittances decline, worsening business sentiment
- Lockdown as a preventive measure of COVID-19 spread resulting in decrease in consumption and output levels
- Government economic support package (2.3% of GDP) will contribute to GDP growth by 0.7–1.6%

Economic growth will rebound up to 7.3% in 2021–2022 as:

+ World economy recovers and stabilizes
+ Government projects on business and investment environment improvement are implemented

Source: authors’ calculations
Forecast. Deflation in 2020

Consumer price deflation by 1,0% in 2020

- Decrease of import prices and weak external demand
- Weak domestic demand as a result of lockdown and diminished economic activity

In the medium term inflation is expected to recover:

+ Accommodative monetary and fiscal policy
+ Recovery of economic activity in the world, as well as in Armenia

Source: authors’ calculations
Forecast. Further decrease of policy rate in 2020

- Adverse effects of coronavirus pandemic caused economic downturn in the world and in Armenia. Accordingly, we expect a stronger accommodative monetary policy stance to support the growth,
- CBRA cut refinancing rate by 0,25 pp to 5,25% in March 2020,
- A round of refinancing rate rises is expected to start in 2022 as economy recovers.

Source: authors’ calculations
**Forecast. Key Macroeconomic Indicators**

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020F</th>
<th>2021F</th>
<th>2022F</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP in constant prices (% growth YoY)</td>
<td>7,5</td>
<td>5,2</td>
<td>7,6</td>
<td>-1,7</td>
<td>7,4</td>
<td>7,2</td>
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<tr>
<td>Consumer price index (% growth in December to previous year’s December)</td>
<td>2,6</td>
<td>1,8</td>
<td>0,7</td>
<td>-1,0</td>
<td>0,7</td>
<td>1,6</td>
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<tr>
<td>Nominal rate on overnight IBL in national currency (the year’s average % per annum)</td>
<td>5,9</td>
<td>6,1</td>
<td>5,8</td>
<td>4,5</td>
<td>4,0</td>
<td>4,8</td>
</tr>
<tr>
<td>Nominal Armenian Dram to U.S. Dollar Exchange Rate, AND per USD (the year’s average)</td>
<td>483</td>
<td>483</td>
<td>480</td>
<td>488</td>
<td>478</td>
<td>473</td>
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