- *Growth in economic activity continued strong in March, at 15.3 percent (yoy).*
- *Export growth continued to be driven by gold and jewelry exports to the UAE.*
- *Tourist arrivals declined by 3.2 percent (yoy) in the first quarter of the year.*
- *The consumer market experienced a 0.7 percent (yoy) deflation, driven by declining food prices.*
- *The AMD continued to appreciate.*
- *The budget deficit was marginal in the first quarter.*
- *The financial system remained sound in March, with improvements in stability indicators.*

Growth in economic activity remained high at 15.3 percent (yoy in real terms) in March after surging to 16.7 percent (yoy) in February (Figure 1). This was due to 33.5 percent growth in industrial output, mostly driven by a 12-fold increase in the production of gold and jewelry. The slowdown was due to a contraction in mining of 7.5 percent (yoy) in March, while strong manufacturing growth eased slightly, from 54.4 percent (yoy) in February to 49.1 percent (yoy) in March. Trade, the second-fastest growing sector, picked up from 28.3 percent (yoy) in February to 30.4 percent (yoy) in March. Construction continued to grow in double digits, at 13.1 percent in March (yoy). Services (excluding trade), the main driver of growth during the first half of 2023, grew by just 4.7 percent in March 2024. This brings cumulative growth in economic activities in the first quarter of 2024 to 14.3 percent (yoy).

Non-commercial net money transfers contracted by 52 percent, (yoy) in March, driven by a 36 percent decline in inflows. Money transfer inflows from Russia declined by 56 percent in March (yoy), which explains most of the contraction (Figure 2). Meanwhile, money transfers total outflows remained similar to March last year.

Declining food prices continued to drive deflation. The Consumer Price Index (CPI) experienced 0.7 percent deflation in April (yoy). Prices for food and non-alcoholic beverages decreased by 4.5 percent (yoy) in April 2024. This was partly compensated by an 8.5 percent increase in transport prices. The Central Bank of Armenia (CBA) continued with the gradual easing of the monetary stance, reducing the policy rate by 25 basis points (to 8.25 percent) in its April 30 Board session (Figure 3).

Growth in exports continued robust, due mainly to exports and reexports of gold and jewelry. Exports of goods increased threefold (yoy) in March 2024, driven by an 8.5-fold increase in exports of precious and semi-precious stones, whose share of total exports rose from 28.5 percent in March 2023 to 80.6 percent in March 2024. Exports of footwear, machinery, and agricultural products continued to rise (up by 40.1, 28.8 and 8.5 percent, yoy, respectively), while other exports experienced declines. In particular, there was a sharp decrease in the exports of means of transport (vehicles) and non-precious metals (contracting by 77 and 59 percent, respectively). Imports grew by 56 percent in March (yoy), especially those sourced in Russia, which grew fourfold in March (yoy), driven by imports of precious and semi-precious stones. The top export destination was the UAE, with a 7-fold increase, as it remains the main market for gold and jewelry exports.

During the first quarter of 2024, tourist arrivals declined by 3.2 percent (yoy). While 42.3 percent of tourists continued arriving from Russia, their number was 21.9 percent lower than during the first quarter of the previous year. Tourists from India, the Philippines, Iran, and Georgia increased by 174, 57, 33, and 16 percent (yoy), respectively.

The AMD appreciated by 2 percent as of mid-May compared to mid-April (Figure 4), partly driven by e strong exports. International reserves fell by USD 100 million in April, bringing the import cover down to 2.6 months (Figure 5).

A budget deficit of AMD 4.7 billion was recorded in March 2024. Tax revenues rose by 9.5 percent (yoy) in nominal terms in March, mostly driven by income and profit tax collection (up by 28 and 44 percent, yoy, respectively). This partly reflects e strong economic activity and high profitability among corporates during 2023. On the other hand, excise tax collection declined by 40.4 percent (yoy) as a result of a decrease in excise collection on imported goods due to lower imports of alcoholic beverages and cigarettes. Expenditures expanded by 16.1 percent (yoy), driven by a 26 percent increase in social spending (including support for refugees) and a 25.2 percent increase in defense spending. The year-to-date budget deficit was marginal (0.01 percent of GDP).

The financial system remained sound, with a drop in the share of total non-performing loans (NPLs). NPLs declined from 2.5 in February to 1.2 percent in March due to a significant write off in non-performing loans in one of the banks. Return on assets increased marginally in March 2024, to 4.2 percent. The capital adequacy ratio also increased marginally, from 19.2 percent in February to 19.7 percent in March 2024. Deposits also grew by 0.6 percent (mom), mostly driven by a 0.8 percent (mom) increase in local currency-denominated deposits. Credit contracted by 0.7 percent (mom) due to a 2.7 percent decline in FX-denominated credit. Consequently, the credit dollarization ratio declined from 36.6 percent in March 2023 to 34 percent in March 2024.

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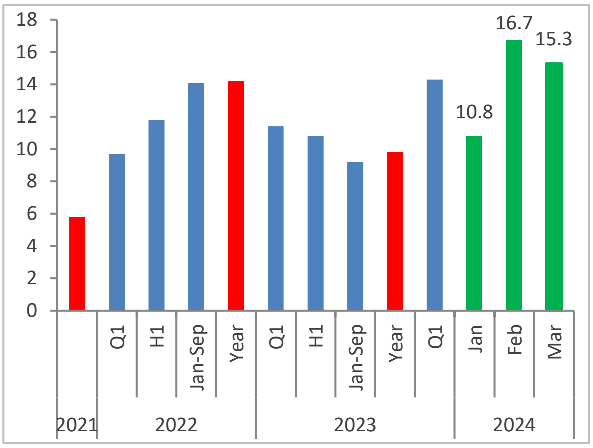
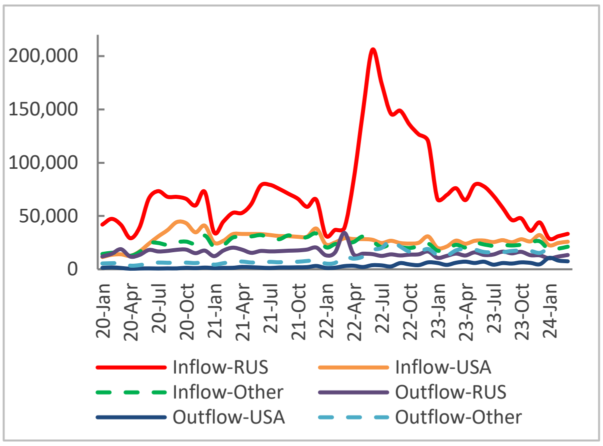
Figure 1. Economic activity remained high in March driven by the growth surge in industry
(Economic Activity Index, yoy change, %)



Source: Statistical Committee of RA

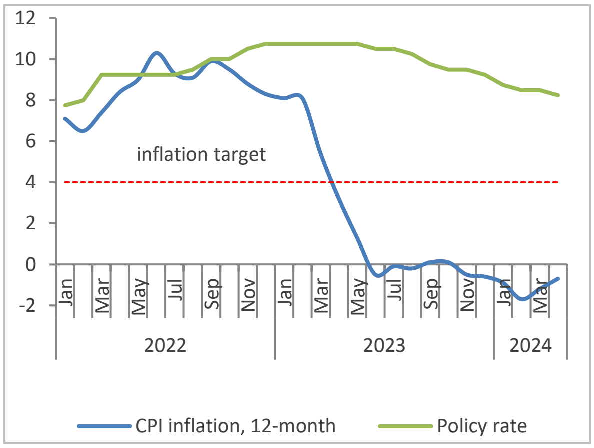
Figure 2. Non-commercial money inflows from Russia were much lower than the previous year
(USD thousand)



Source: CBA

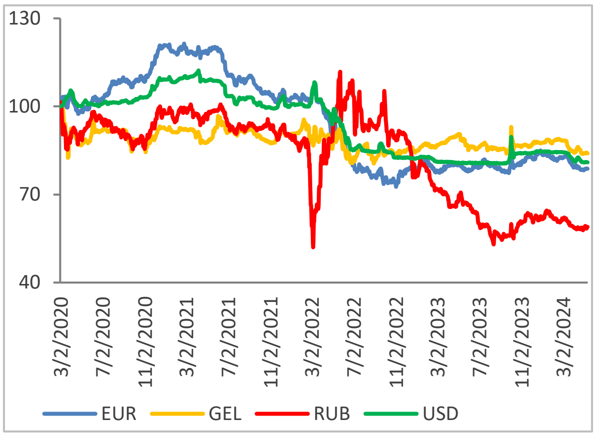
Figure 3. Deflation continued in April 2024

(CPI inflation, yoy change, %)



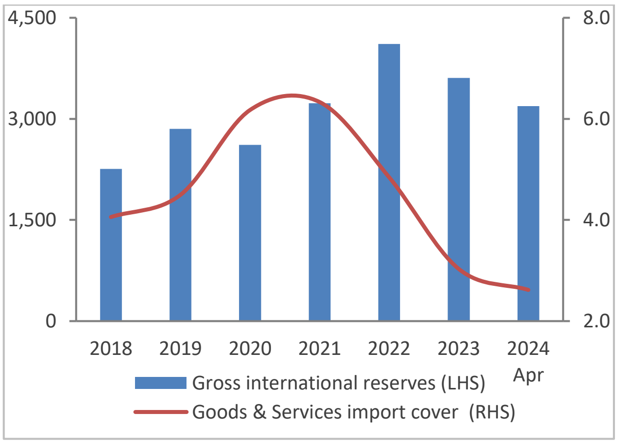
Source: CBA

Figure 4. The AMD continued to appreciate through mid-May against key currencies
(Index: March 2, 2020 = 100)



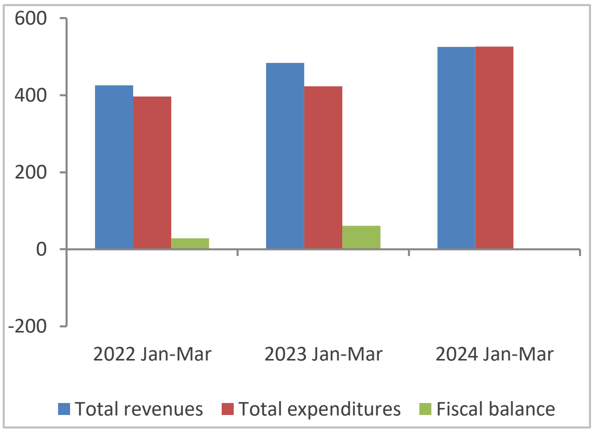
Source: CBA

Figure 5. International reserves continued to decline
(USD million) (Months of imports)



Source: CBA

Figure 6. The budget deficit in the first quarter was marginal
(AMD billion)



Source: MoF

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