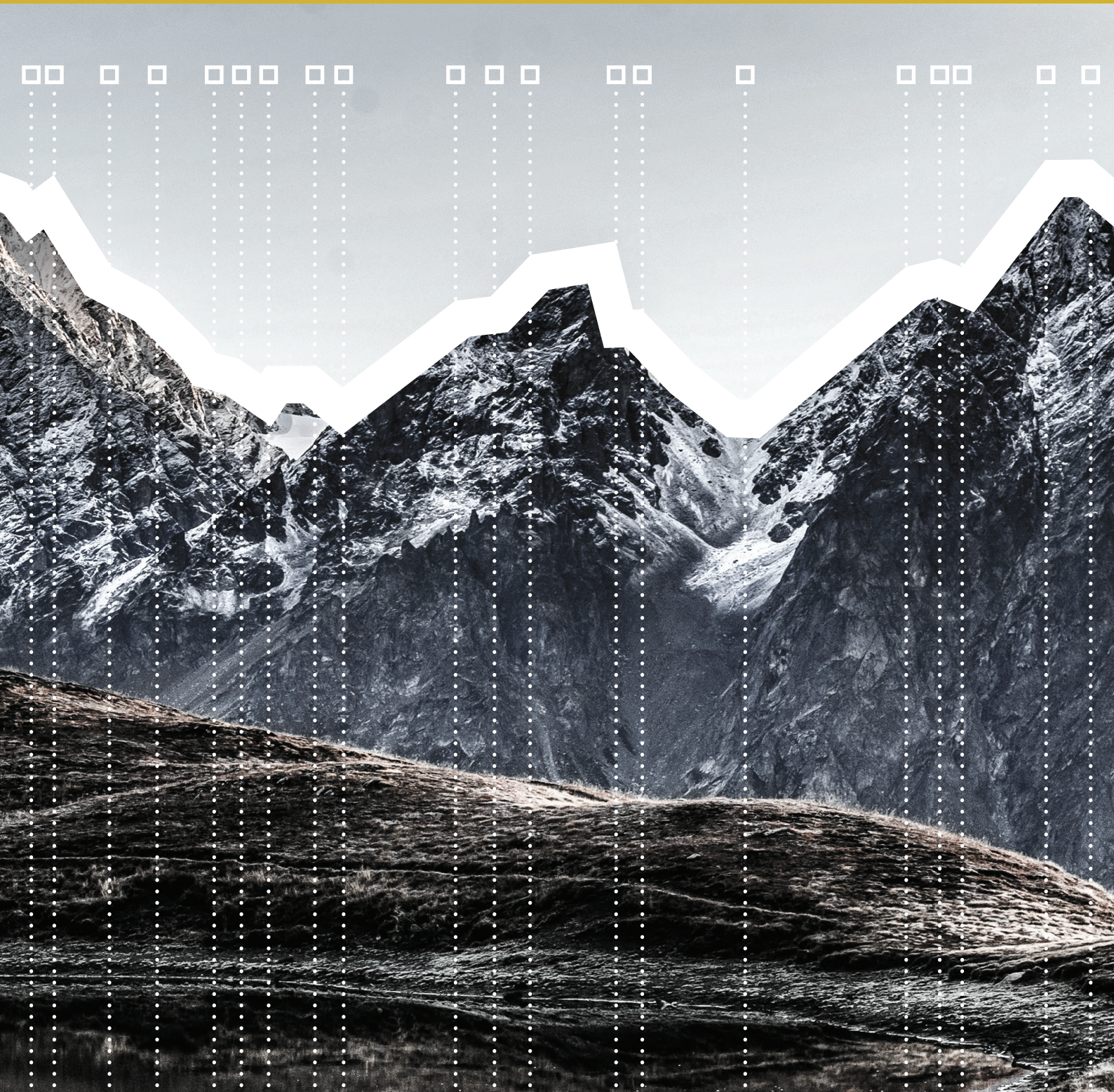




Central Bank of
The Republic of Armenia

Inflation Report

2023 / 3



*Approved
under the Central Bank Board
Resolution No. 168 A, dated 26.09.2023*

Inflation Report /3

*Monetary Policy Program,
Q3, 2023*

*Status Report on Implementation of the Monetary
Policy Program, Q2, 2023* ✦

The inflation targeting strategy of the Central Bank of Armenia highlights the importance of communicating of the Bank to the general public by publishing, inter alia, quarterly inflation reports.

The first section of the inflation report presents the Monetary Policy Program that includes the directions of the monetary policy in the mid-term forecast horizon as well as the scenario of inflation and other macroeconomic indicators under the directions. The latter is one possible scenario under consideration and is based on the Bank's assessment of the current situation and future assumptions, which also include the impact of the Bank operations.

The second section of the report includes the Status Report on implementation of the monetary policy program for the previous one-year period, which presents the results of monetary policy implementation and covers the actual developments in the domestic economy.

Publishing of inflation scenario and the underlying assumptions, along with the inflation target, makes the monetary policy of the Bank more transparent, understandable and predictable, which aims to increase the public confidence in the Bank. The Bank believes that a clear and trusted monetary policy positively affects the anchoring of inflation expectations and maintaining financial stability in terms of cost reduction.

According to the rule of monetary policy, the policy is aimed at effectively minimizing the deviations between the 4% target and the inflation scenario. The path to inflation rate shaped as a result of projected policy directions is published as a probability distribution chart for the 12-quarter time horizon.

The scenario outlined in this report has been based on the actual information available by September 12, 2023, i.e. the day on which the refinancing rate was set, the results of survey conducted by the Bank and the judgment made pursuant to the information on future developments of the macroeconomic environment.

All inflation reports which have been published to date are available on the Bank's official website (www.cba.am) which also contains all press-releases and other monetary policy-related publications.

Table of Contents

1. EXECUTIVE SUMMARY	5
2. SCENARIO PRESENTED, SCENARIO CHANGES AND RISKS	7
2.1. External environment developments	7
2.2. Domestic economy scenario	13
2.2.1. Inflation and monetary policy	13
2.2.2. Economic activity	14
2.2.3. Main judgements and risks	18
<i>Box 1: The results of survey on the inflation expectations by the households and the financial system</i>	18
3. ACTUAL DEVELOPMENTS IN Q2, 2023	25
3.1. Inflation	25
3.1.1. Fulfilment of the inflation target	25
3.1.2. Prices	27
3.2. Economic developments	29
3.2.1. Economy position	29
3.2.2. Expenditures aspect of the economy	29
3.2.3. Production aspect of the economy	31
3.2.4. Labor market	31
3.3. Financial market developments	32
4. SUMMING-UP	35
Annex	
Minutes	36
The CBA Board decision on interest rates	39
Press release	40
Armenia's main macroeconomic indicators	41

1. EXECUTIVE SUMMARY

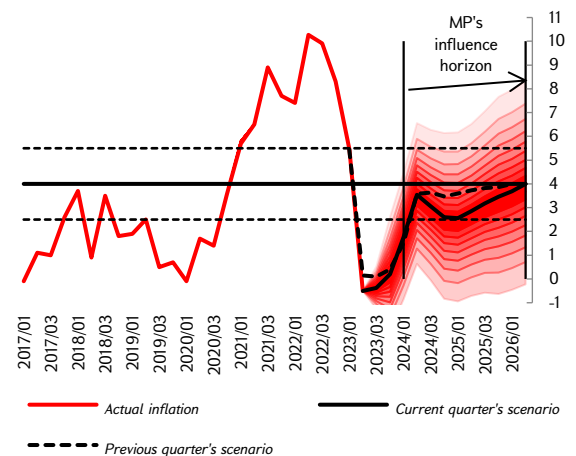
In the third quarter of 2023 the economic activity in the world and the main partner countries to Armenia remains sluggish, and the risks of weaker economic activity have substantially increased. With such developments in the global economy as well as the contractionary monetary policy implementation in place, the overall inflation environment in the world continued to soften significantly. Nonetheless, influenced by inflationary pressures from the labor market and driven by sustained high demand, the prices of goods and services that stand out with “sticky” prices still remain elevated. In such a situation, the central banks of the main partner countries to Armenia will further pursue a relatively contractionary monetary policy in the near future. As a result, the deflationary effects transmitted from the external sector to the Armenian economy will persist.

The growth rate of economic activity in Armenia somewhat slowed down during the quarter, but it is still at a high level thanks to strong growth registered mainly in the services and construction sectors. Despite some decline, aggregate demand also remains relatively high, which is supported by sustained high growth in both external and domestic demand. At the same time, inflation in the Republic of Armenia continued to subdue as a result of the deflationary effects spilling over to the Armenian economy from the global economy, the contractionary monetary policy implemented by the Central Bank of Armenia and the dram’s appreciation. Nevertheless, inflation of services and some goods is adjusting at a relatively slow pace.

On the whole, in the context of today’s uncertainties, the Central Bank of Armenia builds and discusses various situation development scenarios, the one of which is presented in this monetary policy program, with the aim to managing possible risks arising from these uncertainties.

In the third quarter of 2023, as a low inflation environment persisted, the 12-month inflation was -0.2% as of end-August. According to the scenario presented by the Central Bank of Armenia, the 12-month inflation is expected to remain below the target in the near future. This will largely be determined by the deflationary effects to be transmitted from international markets and a certain decrease in inflation expectations, in spite of the slower pace of adjusting inflation in a number of services and goods notwithstanding a relatively high demand. In such a situation, the Central Bank of Armenia considered that it would be appropriate to loosen monetary conditions with a relatively large step at this

Chart 1
Inflation (12-month) scenario probability distribution for a 3-year policy horizon



Source: Armenia Statistics Committee, Central Bank of Armenia scenario

stage, while maintaining consistency in the ultimate regulation of inflation.

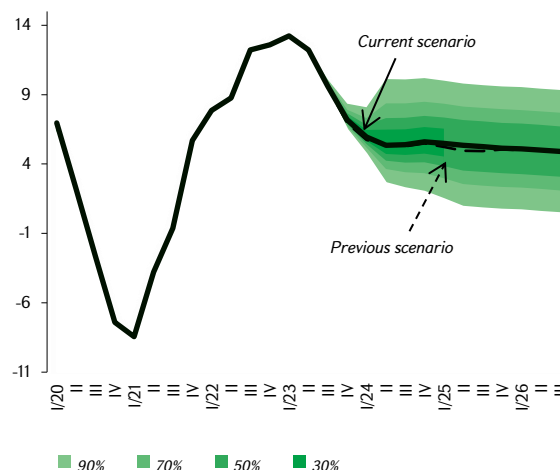
In view of the monetary policy implementation and expected macroeconomic developments, the 12-month inflation will gradually increase in the medium term and stabilize around the 4% target.

According to the scenario presented by the Central Bank of Armenia, high economic activity will persist in the near future, which will continue to be largely fostered by high growth which is expected in services and construction industries. Based on the abovementioned, the economic growth in 2023 is estimated to be 7.2%.

In the medium term horizon, the economic growth will slow down to some extent, due to a weaker growth in demand, and approach its long-term sustainable rate of 4.6% at the end of the policy implementation horizon (Chart 2).

In the 3-year policy horizon of the presented scenario, the probability risks of inflation and economic growth deviating from the projection paths are mostly balanced (see subsection 2.2.3). In the event these risks materialize in any direction, the Board of the Central Bank of Armenia will adequately respond to them and ensure the fulfilment of the price stability objective.

Chart 2
Real GDP growth (cumulative)¹ scenario probability distribution for a 3-year policy horizon



Source: Armenia Statistics Committee, Central Bank of Armenia scenario

¹ Each quarter's growth rate is calculated as the cumulative growth rate of the last four quarters.

2. SCENARIO PRESENTED, SCENARIO CHANGES AND RISKS

2.1. External environment developments

The economic activity in the world further demonstrated sluggish rates during the second quarter of 2023, and the 12-month inflation slowed down largely owing to the continued decline in food and energy prices. In all trade partner countries to Armenia, however, inflationary pressures deriving from the overheated labor markets are persisting, which helps the prices of services and goods that stand out with mostly “sticky” prices remain at elevated levels. It is estimated that the central banks of partner countries will carry on implementing a contractionary monetary policy, which will be reflected in slowing global demand and further price adjustments in commodity markets.

Economic developments in the United States: According to the U.S. Bureau of Economic Analysis estimate, in the second quarter of 2023 the US economy posted a 2.6% growth y/y, which was above the estimate presented in the previous MP program of the Central Bank of Armenia. The second quarter’s growth was largely driven by increased private consumption (particularly services), private investment (except for investment in housing construction, which continues to decline) and, to a lesser extent, government spending. The contribution of net exports to the economic growth was slightly negative, reflecting a weaker demand in main partner economies to the USA (EU, China).

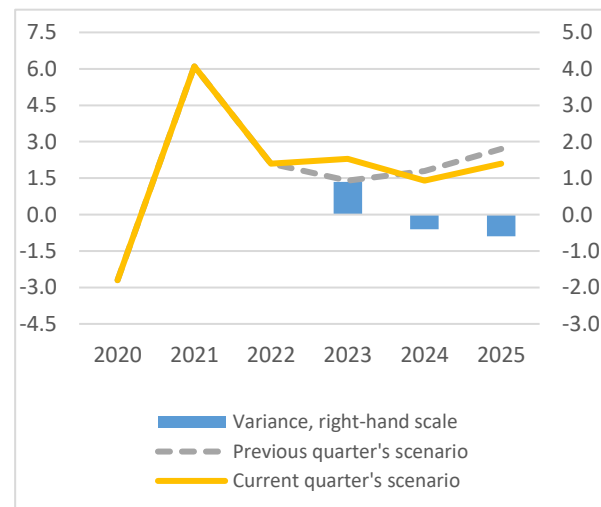
It should be noted that the decline in private savings, the considerably faster growth in retail trade and private expenditures in the course of the last couple of months point to a short-term acceleration in private demand and economic growth in the US, which was also expressed through accelerated inflation in August. In this context, according to the current estimates of the Central Bank of Armenia, **the US economy will record a higher growth of 2.3% in 2023 compared to the previous quarter’s program**, whereas in the medium term, as commercial banks carry on tightening up the lending and monetary conditions, the economic growth will slow down to settle below long-term sustainable levels.

The inflation environment in the United States continued to weaken during the second quarter of 2023, nonetheless high inflation persisted in the product groups standing out with “sticky” prices. According to the estimates of the Bureau of Economic Analysis of the US Department of Commerce, in the second quarter the personal

The economic activity in the world further demonstrated sluggish rates during the second quarter of 2023, and the 12-month inflation slowed down largely owing to the continued decline in food and energy prices.

The central banks of partner countries will carry on implementing a contractionary monetary policy, which will be reflected in slowing global demand and further price adjustments in commodity markets.

Chart 3
The USA economic growth scenario (%)



Source: Bureau of Economic Analysis, Central Bank of Armenia scenario

consumption expenditure inflation kept on decelerating, to 3.7% year-on-year, against the previous quarter's same indicator of 4.9%. The annualized rate of consumer price inflation in the second quarter came in lower than expected, about 4%. It is worth mentioning, however, that decelerating inflation continues to be largely determined by low inflation of the product groups with the most flexible prices (these product groups have posted y/y deflation in May-July 2023). In product groups with "sticky" prices, especially the services, inflation continues to adjust slowly, staying notably higher from their target levels.

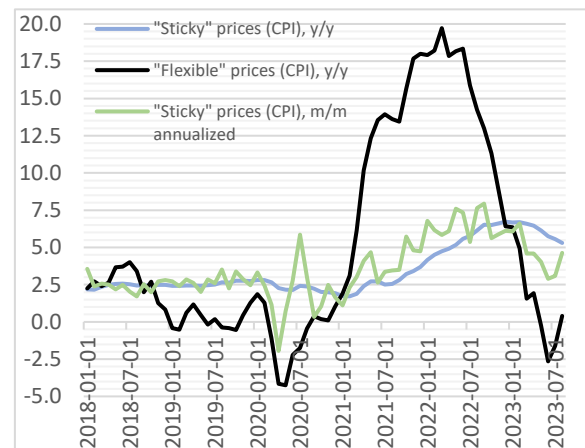
All of the above points to still strong demand and inflation expectations in the United States. It should also be noted that high rates of inflation in apartment rentals continue to be recorded. Thus, in the second quarter of 2023 the housing rents in the US rose by about 8% y/y and about 1.6% this quarter (with annualized figure of nearly 6.3%).

The labor market in the United States remains "overheated". In the second quarter and over the first two months of the third quarter of 2023, the unemployment stood below the pre-pandemic level, while the figure of job vacancies again exceeded the number of the unemployed by nearly 1.5 times. Although there was some increase in the unemployment rate in August (0.3 percentage point compared to July), note that this reflects the increment in the labor force participation rate in the United States (0.2 percentage point). Under these circumstances, the current pace of wage growth is expected to somewhat ease in the near term as a result of some weakening in demand and increase in labor supply, still remaining at high levels.

In the outcome, according to the current scenario of the Central Bank of Armenia, the US Federal Reserve will slightly increase the interest rates in the near future and will further pursue a contractionary monetary policy, ensuring the return of inflation to the target at the end of the horizon.

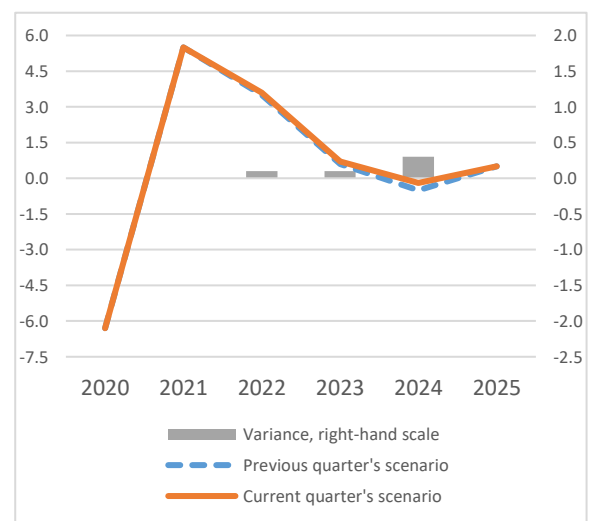
Economic developments in the Eurozone: According to the estimate provided by the Eurostat, in the second quarter of 2023 the Eurozone's economic growth was 0.5% y/y (relative to the previous quarter: 0%), which is rather close to the scenario estimate of the previous MP program of the Central Bank of Armenia. The sluggish economic growth in the Eurozone continues to be attributable to the problems persisting in some of the EU's main industrial countries – Germany, Italy, Austria, and elsewhere. It is worth mentioning that, for example, in Germany the volume of industrial output (in energy-intensive industries, in particular) keeps on shrinking; it shaped at rather low levels compared to February 2022.

Chart 4
Inflation in product groups with "flexible" and "sticky" prices in the USA



Source: Bureau of Labor Statistics, Federal Reserve Bank of Atlanta

Chart 5
The EU economic growth scenario (%)



Source: Eurostat, Central Bank of Armenia

The economic growth of the Eurozone in the second quarter was positively supported by public spending, private investments and the stock change, which was almost completely offset by the negative impact of reduced export volumes. **The decline in export volumes reflects both the slowdown in economic growth (especially a sizable reduction in the construction sector) in one of the EU's main trade partner countries, China, as well as a certain weakening of the EU economy's capacities and structural transformations because of the harsh sanctions imposed by the EU since the beginning of the Russia-Ukraine conflict.** The impact of household final consumption on the GDP growth was almost zero.

Given the continuous tightening of the monetary conditions, as well as the impact the Eurozone economy experiences because of stern restrictions applied to Russia, **the Eurozone economic growth in the short and medium term is expected to be close to the previous estimate, i.e. at a low level.**

The labor market in the EU is further operating under "overheated" conditions. The unemployment kept on falling; in July 2023 it reached 5.9%, with a historically high labor force participation rate of about 75%. Note that as of the second quarter of 2023 the wage growth too has been historically high, around 5%. These conditions are expected to carry on, exerting inflationary pressures in certain branches of the economy (services, in particular).

The 12-month inflation rate keeps on decelerating in the Eurozone, whereas core inflation remains roughly the same – well above the target. Thus, in the second quarter of 2023 the Eurozone saw 6.2% y/y inflation compared to that of 8% in the previous quarter. The oil and gas prices which came in lower against the same period last year continued to largely contribute to the decelerating inflation. The inflation kept on slowing down in the course of the third quarter of 2023 (although at a weaker pace) but is still rather above the European Central Bank's target: 5.3% y/y in August. It is noteworthy that the monthly inflation of 0.6% (7.2% annualized) was recorded in August mainly driven by positive contributions of energy, industrial goods, manufactured food and services.

It should be noted that, unlike headline inflation, core inflation, including especially **the annual inflation of services, further accelerated in the second quarter and lingered almost at the same level over the first two months of the third quarter, slightly exceeding the headline inflation in August, amounting to 5.3%.**

Thus, in view of the aforementioned developments, the anticipation is that the ECB will continue tightening up monetary

conditions in order to ease the inflation environment and help the inflation return to the target at the end of the policy horizon.

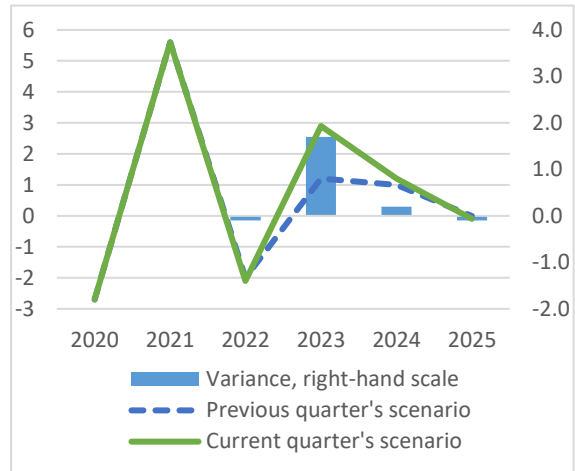
Economic developments in Russia: According to the estimates of the State Statistical Service of Russia, in the second quarter of 2023 the Russian economy grew by 4.9% y/y, which is considerably a more positive result compared to the estimates in the previous MP program of the Central Bank of Armenia. The economic growth in Russia is determined, on the one hand, by a low level of gross output recorded in the same period last year, and on the other hand, by rather high economic activity observable in wholesale and retail trade and services, manufacturing industry, and construction branches.

It should be noted that the demand in Russia has accelerated significantly, with the stimulative fiscal policy further contributing to this. In the course of the last couple of months the volumes of lending (mortgage, consumer, etc.) have also posted notable increases. The steeply rebounding domestic demand also reflects the acceleration of inflation expectations that derive from the ruble’s nominal exchange rate depreciation.

According to the Central Bank of Armenia scenario, the economic developments in Russia in 2023 will be more positive compared to the previous MP program: about 3% of economic growth will be recorded during the year, which will be driven by a more stimulative fiscal policy and short-term acceleration in private demand. Note also that in the current year and along the entire medium-term horizon, the Russian state budget will perform in deficit. However, unlike the current year, the impact of the fiscal policy on the economy will be mostly neutral in the years ahead.

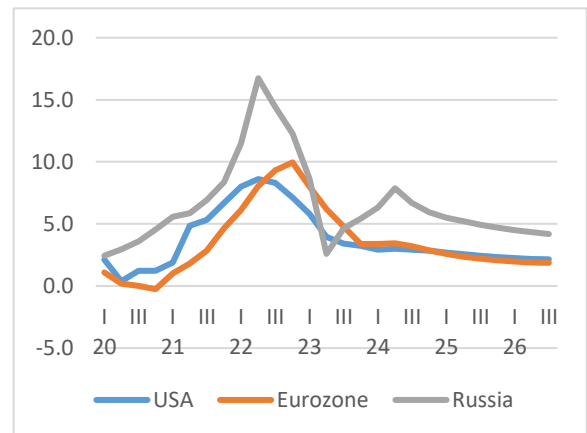
As demand recovers much faster than expected, the current account and, particularly, the balance of trade surplus is rapidly reducing. Note that although risen international oil prices have prompted a sizable increase in the selling price of Russian oil, standing much above the established price ceiling, it is largely being offset through the “voluntary” reduction of oil production volumes by Russia (under the agreement with OPEC+ countries). **In turn, the reduction in current account surplus leads to the ruble’s nominal exchange rate depreciation and adds to the inflation and inflation expectations.** Thus, over the first half of 2023 the 12-month inflation in Russia slumped to 2.3% in April, but it accelerated sharply starting from May and, especially, early in the third quarter. It is worth mentioning that inflation of 0.6% (with annualized figure of more than 7%) was recorded in July 2023, in which case the 12-month inflation outstripped the target,

Chart 6
The Russia economic growth scenario (%)



Source: Rosstat, Central Bank of Armenia scenario

Chart 7
Inflation in partner countries (%)



Source: Bureau of Labor Statistics, Eurostat, Rosstat, Central Bank of Armenia scenario

reaching 4.3% and as much as 5.2% in August. The inflation of services remains elevated as well.

Aiming to contain the acceleration of inflation and inflation expectations as a result of sharply depreciated nominal exchange rate amid increasing domestic demand, the Central Bank of Russia, in its regular meeting in July, raised the policy rate by 1.0 percentage point, then, in an extraordinary decision in August, by another 3.5 percentage points, setting it at 12%. The aforementioned measure made it possible to reach some stability in the Russian ruble exchange rate, inflation and inflation expectations.

According to the current estimates of the Central Bank of Armenia, to completely neutralize risks to accelerated inflation and inflation expectations, the Central Bank of Russia will strive to tighten monetary conditions to a certain extent in the short term, while ensuring that the inflation is brought to the target at the end of the policy horizon.

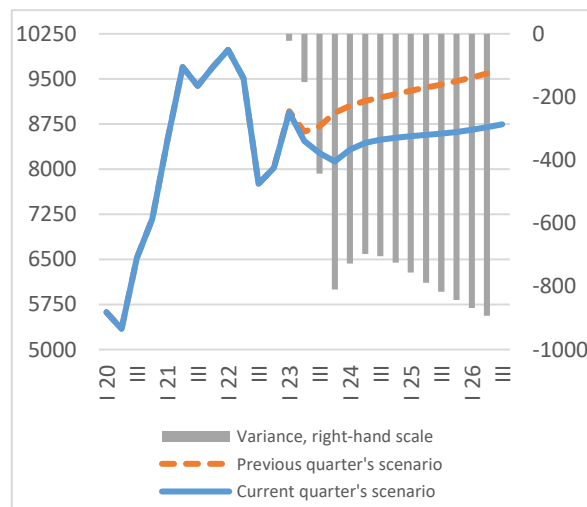
Developments in commodity and food product markets:

As financial conditions tighten up around the globe, price decreases in almost all international commodity markets continued in the course of the second quarter of 2023. Some acceleration of demand in the United States in the short term is offset by weakening of demand in China and, especially, by a decline in investment in the construction sector. As global demand slackens and supply chains/restrictions step into full recovery amid tightening financial and fiscal conditions, there is expectation that real commodity and food product prices will further be adjusted, in the medium run approaching the levels driven by long-term fundamentals². As a result, the inflationary effect transmitted from commodity markets to the Armenian economy will be weak.

In the international copper market in the second quarter of 2023, prices kept on falling to reach USD 8500 per ton, which is about 11% y/y lower compared to the same period last year. This is explained by further tightening of monetary conditions in the world and continued contraction of demand in China, especially in terms of reduced investments in the construction sector. Compared to the previous Central Bank of Armenia program, copper prices have been revised somewhat downside due to the slowdown in demand as a result of

² See “The Central Bank of Armenia Inflation Report 2023/2”, Box 1: “The commodity and food product supercycles”.
https://www.cba.am/Storage/AM/downloads/parberakan/DVQ/Inflation_report_2023Q2.pdf

Chart 8
International copper price scenario



Source: World Bank, Central Bank of Armenia scenario

contractionary monetary policies in developed countries and the expected tightening of global financial conditions. After some adjustment in the short term, international copper prices are expected to start growing at a steady pace in the medium term, approaching the level of some USD 9000 per ton at the end of the horizon.

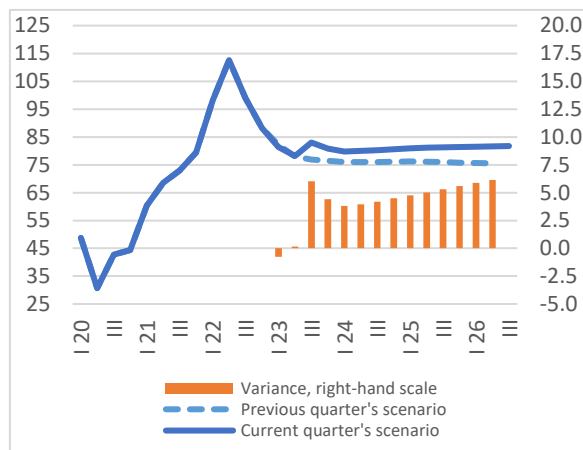
In the second quarter of 2023, in an environment of global demand slowdown under tight financial conditions, the international oil prices continued decreasing to some extent (about 4%) compared to the previous quarter, to around USD 80 per barrel. This trend changed in the course of the third quarter of 2023 when somewhat slower-than-expected sluggishness in global economic activity, coupled with the extended voluntary production cut agreement by OPEC+ member countries, began to create upward pressures on prices. Specifically, the announced extending of the Saudi Arabia and Russia agreement on an additional 1.3 million b/d production cut until the end-2023 gave rise to fears in the international market about possible shortage of oil, which was reflected in the current prices.

In view of the aforementioned developments, oil prices will still be rising to some extent in the short term, then will go some adjustment, as demand weakens amid tightening global financial conditions and additional supply constraints phase out, according to the current scenario presented by the Central Bank of Armenia.

In food product markets in the second quarter of 2023, driven by mainly optimistic expectations for the volume of supply, on the one hand, and further tightening of financial conditions around the globe, on the other, the prices of food product groups (except for sugar) continued to drop, resting at the levels somewhat below the previous estimates of the Central Bank of Armenia. The decrease in prices of almost all product groups continues over the third quarter, except for the product group “oils”, which is attributable to somehow disrupted food transportation chains in the Black Sea basin as a result of the failure of the “grain deal”. Thus, **according to the second quarter 2023 results, the prices in the basic food basket have decreased by about 20.0% against price levels reported for the same period last year.**

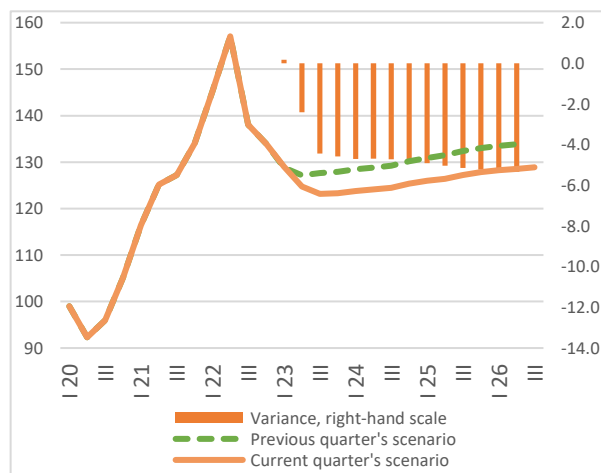
According to the current scenario of the Central Bank of Armenia, as weakening of global demand continues, and conditions of supply in some product groups remain favorable, the prices in food product markets will still be decreasing in the short term; in the medium term the prices will be shaping at levels lower than estimated previously.

Chart 9
International oil price scenario



Source: World Bank, Central Bank of Armenia scenario

Chart 10
International food price scenario



Source: FAO, Central Bank of Armenia scenario

2.2. Domestic economy scenario

2.2.1. Inflation and monetary policy

In the second quarter of 2023 the inflationary effects transmitting to the Armenian economy from the external sector come in notably diminished, as economic growth rates in Armenia's main partner countries remain sluggish and the monetary policy their central banks pursue is relatively contractionary.

The country risk-premium of the Republic of Armenia has decreased to a certain extent owing to the sizably reduced debt burden on the back of strong economic growth (as well as improved outlook) and the dram's appreciation in the country. Moreover, with currently large-scale capital flows, it is estimated that the country risk-premium of the Republic of Armenia stands slightly lower from the level determined by fundamental factors.

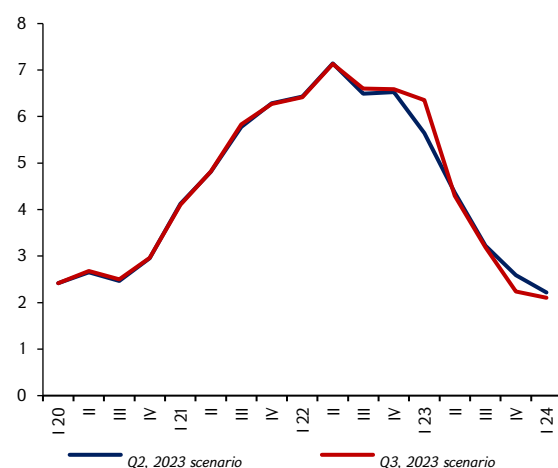
The trends of economic activity in Armenia somehow decelerated, in line with expectations, but they keep up high. Specifically, a 6.0% growth in economic activity was recorded in July of 2023, which was mainly driven by the positive developments in construction and services. It should be noted that the IT industry remains a substantial contributor to the services sector, which is a positive impulse in terms of adding to the potential growth of the economy in the medium run.

In the first half of 2023, in addition to continued growth of the influx of tourists and external demand, the growth of domestic demand accelerated as well. The latter is expressed by a decline in previously accumulated savings and increased demand for consumer loans. As a result, the estimation is that the demand gap still hovers in the positive territory, but tight monetary and fiscal conditions will prompt it to be adjusted in the near future thus helping the inflation environment stabilize.

Certain encouraging trends continue to be seen in the labor market in terms of supply; the number of the working age population and the employed as well as the labor force participation rate keep on rising. A steady slowing in the rate of migration is observable. These shifts also determine a certain increase in the potential growth of the economy. On the other hand, though the 12-month wage growth is still high enough, the growth has stabilized in recent months, and risks of inflationary pressures deriving from the labor market have diminished significantly.

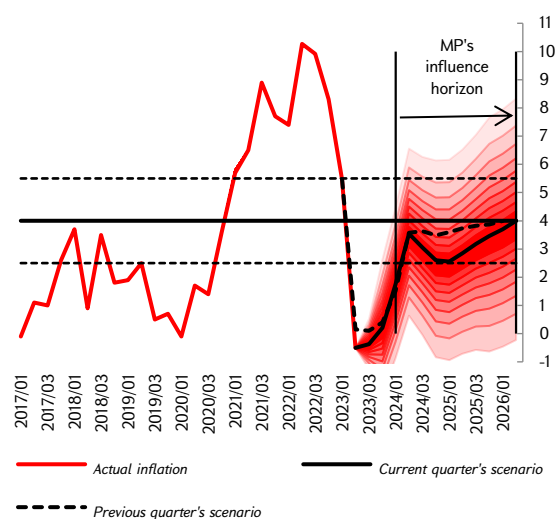
In the outcome, as deflationary effects spill over to the domestic economy from the world economy, the Central Bank of Armenia

Chart 11
Short-term inflation expectation estimates (%)



Source: Central Bank of Armenia estimate

Chart 12
Inflation (12-month) scenario probability distribution for a 3-year policy horizon



Source: Armenia Statistics Committee, Central Bank of Armenia scenario

implements a contractionary monetary policy, and the dram appreciation continues, high demand and inflation expectations contributing to inflation (see Box 1) have decreased to some extent. However, the adjustment of inflation of services and some goods is taking place relatively slowly.

In this situation, the Board of the Central Bank of Armenia decided to reduce the policy rate by 0.5 percentage point to 9.75%.

In this situation, the Board of the Central Bank of Armenia decided to lower the policy rate by 0.5 percentage point to 9.75%.

The monetary stance, it should be noted, remains contractionary, which safeguards the required consistency in handling demand and stabilizing inflation expectations. As outlined in the monetary policy scenario, the 12-month inflation will remain below the target in the near future, amounting to 0.2% at the end of 2023. In the mid-term perspective it will gradually increase and stabilize around the 4% target. At the same time, the probability risks to inflation deviating from the projection path are estimated as primarily balanced.

The 12-month inflation will remain below the target in the near future, amounting to 0.2% at the end of 2023.

Table 1:

	Inflation probability distribution interval				
	<1.0%	1.0-2.5%	2.5-5.5%	5.5-7.0%	>7.0%
Q3, 2023	99.4%	0.6%	0.0%	0.0%	0.0%
Q4, 2023	70.1%	23.9%	6.0%	0.0%	0.0%
Q1, 2024	31.3%	35.6%	31.9%	1.1%	0.1%
Q2, 2024	7.4%	19.9%	58.2%	11.5%	3.0%
Q3, 2024	13.6%	24.2%	51.5%	8.5%	2.2%
Q4, 2024	21.9%	25.5%	43.6%	6.9%	2.1%
Q1, 2025	22.9%	25.3%	42.7%	6.9%	2.2%
Q2, 2025	19.4%	23.6%	45.1%	8.7%	3.2%
Q3, 2025	16.8%	21.0%	45.8%	11.1%	5.3%
Q4, 2025	15.9%	18.6%	44.0%	13.1%	8.4%
Q1, 2026	14.1%	17.3%	44.0%	14.4%	10.3%
Q2, 2026	12.0%	15.6%	43.6%	15.9%	12.9%

2.2.2. Economic activity³

The economic growth estimate for Armenia has been revised slightly upside compared to the previous MP program of the Central Bank of Armenia.

The economic growth estimate for Armenia has been revised slightly upside compared to the previous scenario of the Central Bank of Armenia. The 2023 economic growth will be 7.2% relative to the previous estimate of 6.9%.

The economic growth for 2023 is estimated at around 7.2%, which will continue to be largely driven by strong growth in the services and construction sectors.

³ For a detailed numerical description of the economic growth scenario, see Chart 13, Table 2.

The positive developments in the information and communication sector thanks to high output on the back of the influx of rather productive labor force in this industry will further promote to high growth in the services sector. This growth will positively contribute to maintaining a higher potential GDP in the medium term. In addition, with high external demand driven by the influx of international visitors as well as the acceleration of domestic demand, other service branches – accommodation and public catering, transport and trade – will also continue contributing greatly during the year.

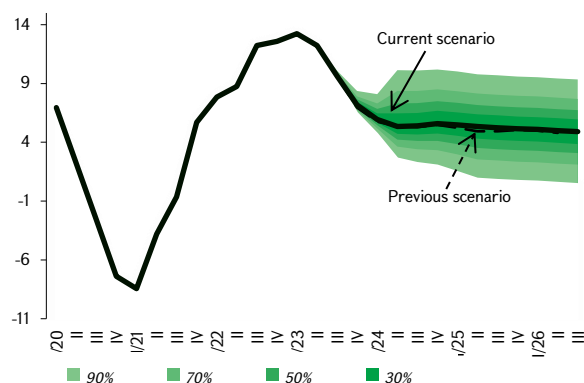
Strong growth in the construction sector will persist in the medium term. Compared to previous Central Bank of Armenia estimates, higher growth is expected mainly owing to sustained high rates in housing construction. Construction works planned for the operation of the Amulsar mine will positively contribute to the construction sector in the near future.

Actual developments in the agricultural sector indicate that the expected slowdown in the sector will carry on.

The industry growth has been revised somewhat downside relative to the previous MP program due to both a decline in the mining and some slowing growth in manufacturing industries. The growth in manufacturing will continue to have a minor positive contribution to overall industry growth.

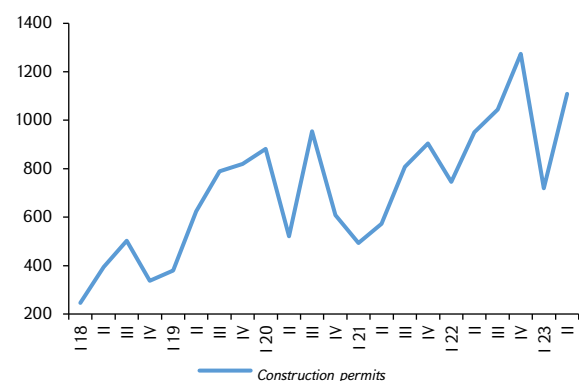
Over the mid-term policy horizon, the economic growth will subside to some extent due to a slowing in demand growth rates. However, the medium-term economic growth estimate has been revised upside thanks to higher investment activity. At the end of the horizon the economic growth will approach its long-term sustainable level of 4.6% (Chart 13).

Chart 13
Real GDP (cumulative) scenario probability distribution for a 3-year policy horizon



Source: Armenia Statistics Committee, Central Bank of Armenia scenario

Chart 14
Construction permits



Source: Armenia Statistics Committee, Central Bank of Armenia

Table 2:

Real GDP growth (cumulative) scenario probability distribution		
Period	30% probability distribution	90% probability distribution
January - December 2023 / January - December 2022	7.0 - 7.4	6.5 – 8.4
January - December 2024 / January - December 2023	4.8 – 6.7	2.0 -- 10.2
January - December 2025 / January - December 2024	4.1 – 6.2	0.7 – 9.6
January - September 2026 / January - September 2025	3.9 – 5.9	0.5 – 9.3

Domestic demand: In the demand point of view, the structure of economic growth has changed to some extent. In addition to the influx of international visitors and higher external demand observable since 2022, **the domestic demand too, has been accelerating in the course of 2023, supported by higher private consumption growth as a result of increased private incomes and reduced savings.** Recently, the household demand for consumer loans has also increased significantly.

The private investment is expected to grow higher this year than previously estimated, as evidenced by higher levels of construction permits and import of investment goods. It is noteworthy that enterprises have sizable accumulated savings, which may facilitate the acceleration of investment in the future. In the short term, the increase in investment activity will contribute to the growth of domestic demand, and in the medium term it will foster the increase in potential GDP and production capacities.

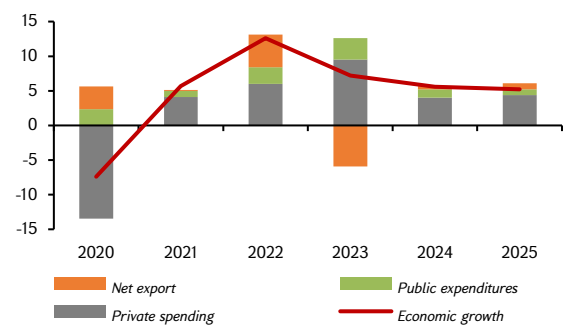
External demand: In the course of 2023, the current account deficit is expected to increase due to the acceleration of domestic demand recovery.

During 2023 the current account deficit-to-GDP ratio will increase against the previous year to amount to 3.4%. Despite the continued export of services on the account of higher-than-expected increase in the influx of tourists and persistently high level of IT exports, the growth rates of export of goods have been somewhat slowing down after the previous year's reported strong growth. The real growth rate of import of goods exceeded the growth rate of export for the first time since the start of 2021, driven by increased domestic investment and consumer demand. As a result, according to the current scenario, the real growth of export and import of goods and services in 2023 will amount to 18% and 28%, respectively.

In the course of 2023 the decrease in remittances of individuals will be bigger in comparison with the previous scenario, due to the slowdown of economic activity in partner countries as well as the reduction in the dollar equivalent of remittances in the wake of steep depreciation of the Russian ruble since July.

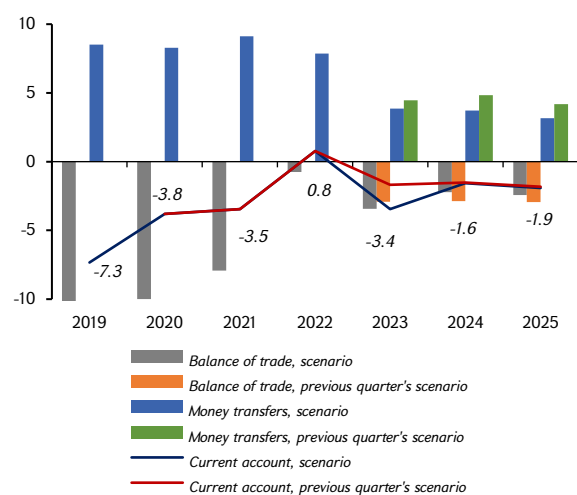
In the mid-term perspective, however, in view of the scenario providing for gradually adjusting high external demand and recovering domestic demand, the current account-to-GDP deficit ratio would still stand below the estimated equilibrium of 4.0-6.0%. The latter will depend also on positive contribution to the export of precious metals after launching the Amulsar mine operation during 2024.

Chart 15
Demand components contributing to the growth (percentage point)



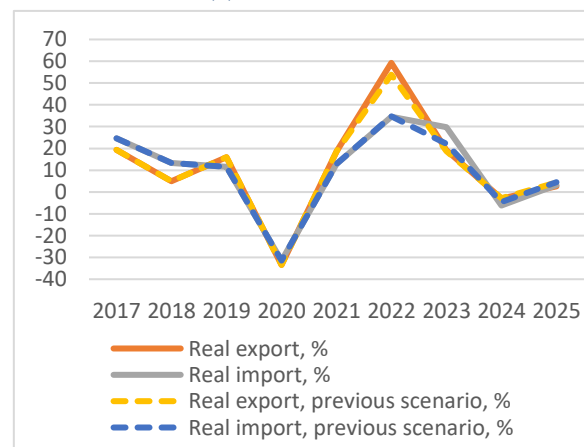
Source: Armenia Statistics Committee, Central Bank of Armenia scenario

Chart 16
Current account/GDP ratio medium-term scenario (%)



Source: Armenia Statistics Committee, Central Bank of Armenia scenario

Chart 17
Change in real export and import of goods and services in the medium term (%)



Source: Armenia Statistics Committee, Central Bank of Armenia scenario

Fiscal policy⁴. In the face of actual high economic growth for 2023, the impact of fiscal policy on aggregate demand is assessed as contractionary. The state budget reported overperformed revenues and underperformed expenditures against the 2023 budget plan; this, accordingly, generated a state budget surplus instead of the projected deficit.

As the Central Bank of Armenia estimate shows, the tax-to-GDP ratio⁵ in 2023 will amount to 23.4%, pointing to a slightly slower growth of taxes relative to the GDP, compared to the previous MP program.

Although a vibrant economic activity persisted at the beginning of 2023, the pace of tax collection is somewhat slower compared to the plan. As a result, slightly less tax revenues are expected relative to the indicator of the previous MP program of the Central Bank of Armenia; based on the year's results, the tax revenue will amount to about AMD 2235 billion.

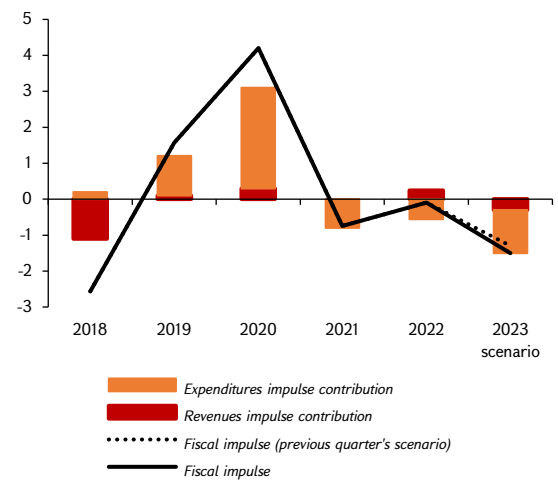
The state budget expenditures in January-August 2023 were underperformed relative to the projection mainly due to capital expenditures. Nonetheless, the anticipation is that the expenditures plan will secure a 98% performance.

In 2023 the public expenditures will amount to nearly AMD 2551 billion. According to the Central Bank of Armenia estimate, in 2023 the expenditure-to-GDP ratio will reach 26.9%, mainly as a result of more capital expenditures, increasing by 0.5 percentage point compared to the previous year. In the outcome, the deficit-to-GDP ratio will be 2.3%, staying unchanged relative to 2022.

Thus, with state budget expenditures and revenues adjusted from the flows that have no impact on aggregate demand, the fiscal policy is estimated to have about 1.5 percentage points of contractionary effect in 2023 in comparison with 2022. This will be attributable to contractionary impulses of both expenditures and revenues.

Based upon the Mid-Term Expenditures Framework 2024-2026, the estimation of the fiscal policy's impact in the medium run remains unchanged relative to the previous scenario; it is estimated to be minor stimulative due to large-scale capital expenditures intended for that period of time and some slowing in the GDP growth rate. A gradual reduction of the budget deficit and debt burden is also anticipated thanks

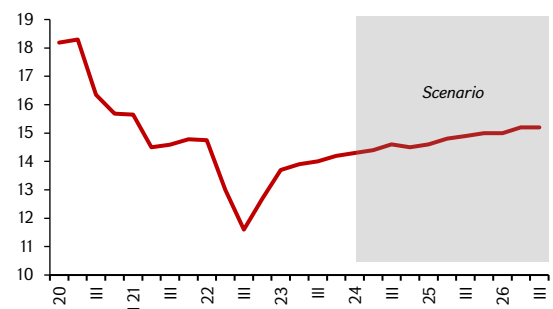
Chart 18
Fiscal impulse scenario (percentage point)



Source: Central Bank of Armenia scenario

In 2023, relative to 2022, the fiscal policy is estimated to have some 1.5 percentage points of contractionary effect.

Chart 19
Unemployment rate (%)



Source: Armenia Statistics Committee, Central Bank of Armenia scenario

⁴ The fiscal policy's impact on the 2023 aggregate demand was estimated taking into account the RA Law on the Budget 2023, the "Mid-Term Expenditures Framework, 2024-2026" estimates, the current plan (quarterly and annual plans as adjusted by respective Government decrees available at the time), current developments and the Central Bank estimations based thereon.

⁵ The GDP indicators used in the program are the Central Bank of Armenia estimations.

to the increase in tax revenues and improvement in the expenditures structure.

Labor market: The unemployment rate in 2023 is still expected to stand below its long-term sustainable level of around 14%, which is consistent with high demand and a positive GDP gap being reported for the year. The labor supply has also increased in the light of the influx of labor observable since 2022. In the medium term, with high demand adjusting, on the one hand, and economic growth slowing to some extent, on the other, the unemployment rate will stabilize around its long-term sustainable level of 15%.

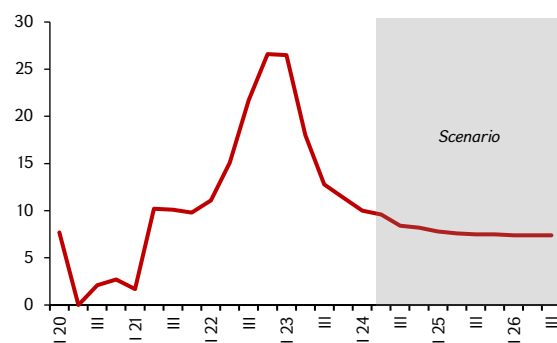
The labor market in 2023 will remain heated, but in the course of the second half of the year the private wage growth will already slow down, pointing also to the gradual closure of the positive GDP gap. The growth of nominal private wage is expected to be around 17% during the year. However, in the medium term, the growth of nominal private wage will stabilize around the sustainable level of 7-8%.

Thus, in 2023 the inflationary pressures from the labor market will somewhat ease, yet certain risks will carry on attributable to faster growth of private wages over the productivity growth. In this case, unit labor costs will be around 10% during the year, but in the medium term they will stabilize within a 4% range.

2.2.3. Main judgements and risks

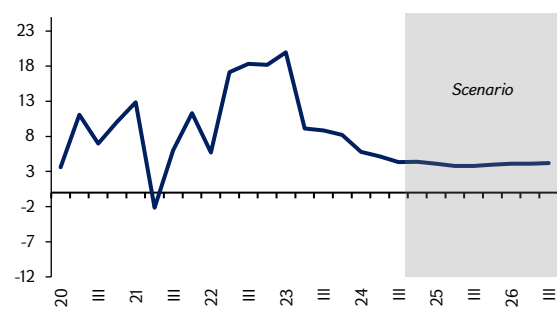
This section contains the main judgements and scenario risks that underlie the Monetary Policy Program for the third quarter of 2023.

Chart 20
Private nominal wage growth y/y (%)



Source: Armenia Statistics Committee, Central Bank of Armenia scenario

Chart 21
Unit labor costs growth y/y (%)



Source: Armenia Statistics Committee, Central Bank of Armenia scenario

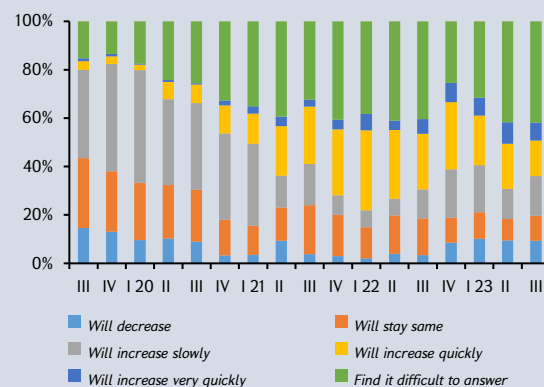
Box 1

The results of survey on the inflation expectations by the households and the financial system

The results of the Central Bank of Armenia surveys conducted among households and financial system participants to figure out their expectations for a bunch of macroeconomic indicators for the third quarter of 2023 show that the share of those expecting low inflation has increased. In particular, in the structure of respondents, the share of households expecting high inflation in a one-year horizon has decreased. At the same time, the survey's results denote that uncertainty about inflation remains unchanged.

Interestingly, although the inflation expectations of households have been somehow decreasing recently, these still stand relatively high.

Chart 22
Surveys on households' inflation expectations



Source: Central Bank of Armenia

Judgments of the scenario presented

Table 3:

Basic judgments and assumptions	Possible developments, if the assumption mentioned proves correct
<p>The sanctions against Russia will carry on over the entire policy horizon.</p> <p>Tight terms of lending in the US banking system will continue. However, the reported bankruptcies of some banks in the US financial sector will not be systemic in nature, including as a result of adequate policy measures.</p> <p>The fiscal policy in Russia will be deficit-driven over the entire forecast horizon.</p> <p>As approved by OPEC+ member countries, the agreement to reduce oil production by an extra 1.6 mln/b per day from April of 2023 will be effectively adhered to up until end-2024.</p> <p>As global demand continues to slow and supply chains go full recovery in a time when economic policies tighten up, the real commodity and food product prices will further be adjusted downside, shaping around the fundamentals-driven levels in the medium run.</p>	<ul style="list-style-type: none"> ✓ The economic growth in the USA and the Eurozone - principal trade partners to the Republic of Armenia - will continue to weaken, shaping at a lower level in the medium term. The economic recovery in Russia will proceed at a faster pace in the short term but will slow down in the medium term, mainly due to tightening economic policies. ✓ The tightening of terms of lending by the US banking system will have some negative impact on the real sector in the medium term. ✓ Downside price adjustments in commodity and food product markets will carry on. ✓ International oil prices in a supply-constrained environment will continue to remain elevated, with certain inflationary spillover effects in partner countries. ✓ Inflation in the US and the EU will continue to be influenced by falling prices of commodities (excluding those of energy), but inflation on goods with relatively “sticky” prices will be adjusting slowly. ✓ The central banks of the main partner countries to the Republic of Armenia will maintain a contractionary policy stance for a relatively long period of time. In these countries, inflation will gradually return to its target at the end of the forecast horizon only.
<p>The fiscal policy in 2023 is expected to have contractionary effect in terms of both expenditures and revenues.</p>	<ul style="list-style-type: none"> ✓ The fiscal policy in 2023 is estimated to have about 1.5-percentage point contractionary effect (in case the annual tax revenues plan and as much as 98% of the adjusted expenditures plan are executed) mainly owing to faster revenue growth over the economic growth and relatively small growth in expenditures contributing to aggregate demand. In the medium term, according to the estimates in the Mid-Term Expenditures Framework 2024-2026, a minor stimulative effect of the fiscal policy is expected.

<p>Export opportunities of the Republic of Armenia continue to expand given the potential growth largely in IT industry, as well as the persistently high external demand.</p>	<ul style="list-style-type: none"> ✓ Given that an influx of international visitors persists, positive trends in external demand will continue in the short term. ✓ High growth in Information and Communication sector will be maintained in the short term, which will have an average 1.8-2.0 percentage points of positive impact on the GDP potential in 2023.
<p>In the medium-term perspective, the mining sector is expected to make a certain positive contribution to the growth of the GDP potential.</p>	<ul style="list-style-type: none"> ✓ The operation of the Amulsar mine will contribute positively to the Armenia’s potential growth between 2023-2025. Specifically, the Amulsar’s contribution to accelerating the potential growth will be reflected in strong growth in the construction sector and higher investment activity (about 1.0 percentage point in GDP) in 2023, and in the expanded output and export potential (some additional 2.0 percentage point contribution to the GDP) in 2024 and, to a certain extent, in 2025.

Scenario risks

Heightened geopolitical uncertainties in the region and around the globe carry on, creating risks and challenges in terms of balancing the world economy, ensuring normal functionality and full recovery of the international commodity, food and financial markets, and supply chains.

In addition to risks from the outside world, there are also geopolitical risks associated with large-scale military aggression by Azerbaijan. These factors continue to be reflected in broader ranges of uncertainty around central value scenarios for inflation and other key macro indicators (see Charts 1 and 2). Accordingly, in the time of high uncertainties, only quantitatively the most significant risks around the presented scenario are introduced below.

In the aggregate demand point of view, the risks are as follows:

- Labor markets in all partner countries to the Republic of Armenia are functioning under “overheated” conditions. The unemployment is at historically low levels, and job creation continues to be strong, especially in the services sector. As these trends carry on, the growth of wages in certain branches may remain high, creating additional inflationary risks. In Russia too, the labor market continues to “warm up”, containing certain risks to accelerating inflation.

- The continued tightening of lending terms in the US banking system, the slowing of industry observable in the European Union, and persisting problems in the real estate market in China may have a significant impact on the decline in global demand.
- The fiscal policy in Russia may be more stimulative than expected, facilitating a faster recovery of demand in the economy and expansion of the inflation environment
- As geopolitical developments carry on, there are risks related to revising the risk premium for Russia and continued depreciation of the ruble.
- The duration and scale of the expected influx of international visitors, tourists and financial resources in the context of current geopolitical events in the region influence the Armenian economy in terms of creating mainly positive risks to demand.
- In case the security situation in Armenia and/or the region deteriorates as today's geopolitical developments unfold, there may be an outflow of foreign visitors and a capital flight, which may have both inflationary (depreciation of the exchange rate) and deflationary (reduction of external demand) effects.
- The possible slowdown of seasonal migration from and remittances to the Republic of Armenia driven by currently unfavorable economic environment in Russia and restricted movement of capital as well as improving working conditions in Armenia, creates risks in terms of slowing consumption, on the one hand, and increasing labor supply in the domestic economy, on the other.
- In the fiscal policy point of view, the main risks are with regard to contributing to the containment of the inflation environment in case the capital expenditures, projected at remarkably high targets, are underperformed.
- With inflation indicators staying notably above the target for a long while in Armenia, risks to deanchoring of long-term inflation expectations are persisting; however these risks have mostly subdued in the currently low inflation environment and reduced inflation expectations.
- With a high amount of savings accumulated in the private sector, there are primarily inflationary or deflationary risks associated with accelerating consumption and investment growth, respectively.

In the supply point of view, the risks to inflation are as follows:

- Risks to commodity and food price valuations depend on both the effectiveness and duration of the OPEC+ agreement to cut oil production and possible disruptions in supply chains and ensuring fundamental supply volumes in international markets in case of further escalation of the Russia-Ukraine conflict.
- With geopolitical tensions persisting, there are risks to deglobalization and primarily inflationary risks deriving from it.
- In view of a substantial improvement in the relative conditions of Armenia's labor market (average private sector wages in dollar terms), an influx of migrant workers may be possible. As well as contributing to some growth of aggregate demand, this will have primarily a deflationary effect as a result of the surpassing growth of aggregate supply.
- With continued tension on the borders of the Republic of Armenia, high geopolitical and regional uncertainties, there are inflationary risks associated with financial markets' overreaction and the increase in the country risk-premium of the Republic of Armenia.

In the medium-term perspective, the risks to the inflation deviating from the projection path are estimated as balanced and, on the whole, rather big quantitatively (see Chart 1).

In addition to the above-mentioned inflation risks, there are more mid-term risks to potential economic growth that are both dual-sided and balanced. In particular, the risks are related to the domestic and external factors, as follows:

- Uncertainties related to the operation of the Alaverdi copper smelter, which is an upside risk.
- Uncertainties related to the timing of the Amulsar mine operation, the nature and extent of investment, and to output and export volumes following the operation of the mine, which is both an upside and downside risk according to the scenario presented.
- Difficulties in the activity of companies operating with Russian capital in the Armenian economy, which is a negative risk in terms of the domestic economic growth.
- Both positive and negative risks related to the nature, size, and duration of capital financial flows to the Armenian economy, and to possible transformation of the economy.

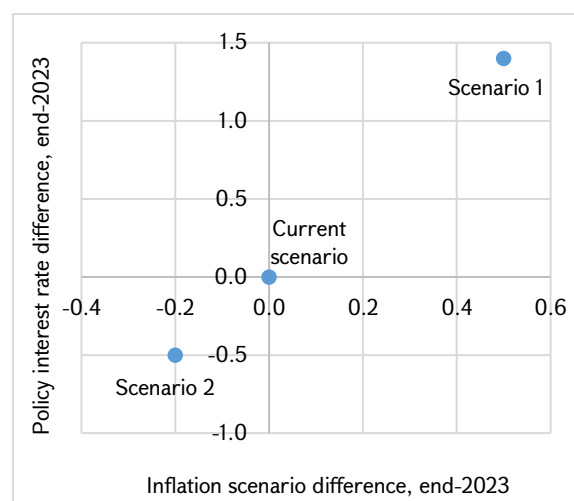
- Risks related to the size and effectiveness of capital expenditures (including the economy’s ability to absorb them) outlined in the medium-term budget expenditure plan.
- Negative risks related to border tensions and geopolitical and regional uncertainties.
- Mostly positive risks related to acceleration of investment as a result of savings accumulated in the private sector.
- The programs with the EUR 2.6 billion support package intended to be carried out within the framework of the EU Eastern Partnership, which is an upside risk (annual GDP growth of around 0.9-1.0%).

In general, there are major uncertainties about possible geopolitical developments, the speed of recovery of demand in Russia, rearrangements in international supply chains, as well as the continuity of international travel and capital and labor inflows to Armenia and directions of use of large amount of savings accumulated in the real sector of the domestic economy, and the Central Bank of Armenia strives to control the possible risks arising from these uncertainties by building and discussing various scenarios on how the situations would unfold. Specifically, driven by the peculiarities of the current phase, in the context of numerous risks to be possibly materializing, two typical scenarios of economic development assuming a relatively tight or loose monetary policy against the presented scenario were considered in depth, as follows:

- Savings accumulated in the private sector on the back of the recently observable strong economic growth, coupled with a substantial increase in income in the economy and gradually reducing uncertainty about future income, are to be channeled mainly to boost up private consumption. On the other hand, the continued growth of consumer loans also contributes to a significant expanding of demand in the economy, which is reflected in a slower closure of the positive GDP gap and lingering of inflationary pressures for a longer period of time. This may also lead inflation expectations to remain elevated, which would make fulfilment of the inflation target more costly. In the outcome, the Central Bank will need to look to tighter policy conditions to ensure price stability (scenario 1).
- Notable slowing of economic growth in the world could bring about considerable weakening of Armenia’s external demand as well as the decline in global inflation. Thus, the problems in the US financial system, combined with significant economic

Chart 23

Possible scenarios of economic development in the current situation



Source: Central Bank of Armenia

slowdown in the Eurozone and financial and economic problems in China could lead the global demand to a substantial slackening, especially if tight monetary conditions in developed countries are maintained. Consequently, deflationary effects in commodity markets could also negatively influence Russia's economic growth, which would have an additional negative impact on the flow of tourists to Armenia, the remittances, and the demand for exports from Armenia. In such a circumstance, the 12-month inflation and aggregate demand in Armenia would decline much faster compared to the scenario presented in the current program, bringing in the need for quicker reduction in interest rates (scenario 2).

Remarkably, the options of an appropriate policy response to the scenarios have been considered, which will allow to react to the situation accordingly at first substantial signs that these risks are materializing.

3. ACTUAL DEVELOPMENTS IN Q2, 2023

3.1. Inflation

3.1.1. Fulfilment of the inflation target

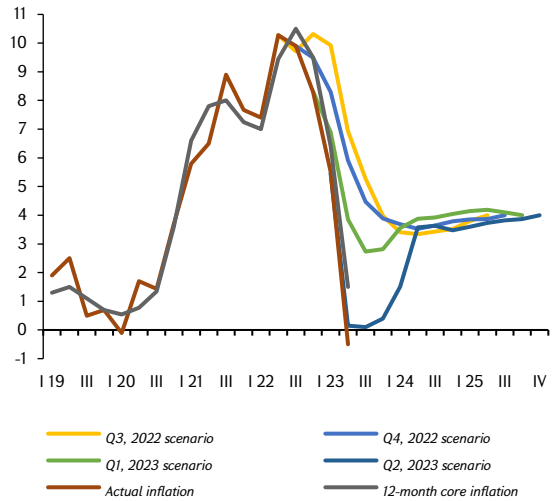
According to the main judgements outlined in the scenario provided in the monetary policy program for the third quarter of 2022, the inflation environment and inflation expectations would remain high in the near term, attributable to the inflationary effects transmitted from external markets as well as the strong demand being created in the Armenian economy in expectation of the influx of international visitors and financial resources. Furthermore, the estimation was that the effects of global inflation patterns and external demand would have to weaken in the mid-term perspective, provided that the Armenian dram kept on appreciating, and coupled with the effect of the contractionary monetary policy being carried out, would contribute to the slowing of inflation thus helping it stabilize around the 4% target since the end of 2023.

In the period under review, the 12-month inflation behaved unexpectedly, following even a steeper declining path in the wake of notably weakened inflationary effects from the external sector and continued dram appreciation. In that situation, in each subsequent quarter, the projected path of inflation for the short-term perspective has been adjusted considerably downside.

According to the actual macroeconomic developments in the period under review, the rates of economic activity had been trending down in the global economy and the main partner countries of Armenia, largely because of the impact of the ongoing Russia-Ukraine conflict and various sanctions applied to Russia. Simultaneously, a slowdown in demand and significant easing of the inflation environment as well as a certain decrease in energy and food prices in the international commodity markets has been observable as a result of the contractionary monetary policy implemented by the central banks of partner countries with the aim to taming high inflation. Under such circumstances, the inflationary effects on the Armenian economy from the external sector have weakened significantly. In the period under review, a higher-than-expected activity has been reported in the domestic economy mostly thanks to demand factors; these were primarily evident in a sizably grown external demand in the services sector, while incurring the impact of a large influx of international visitors, including tourists, and of financial resources. The export sector, the IT and manufacturing industries, in particular, benefited positive developments as well,

Chart 24

In the period under review, the 12-month inflation has demonstrated a steeply declining trend, with the short-term estimate of each consequent quarter revised considerably downside



Source: Armenia Statistics Committee, Central Bank of Armenia

pointing to trends in manufacture potential and export growth there. Meanwhile, influenced by a large demand coming from international visitors and a notable inflow of financial transfers from abroad, Armenia's currency market saw the dram appreciating considerably. Following a much weaker inflationary influence from the external sector, the implemented contractionary monetary policy and the appreciated dram exchange rate, the inflation environment has mitigated rapidly especially throughout the first half of 2023, yet persistently high demand and inflation expectations continued contributing to wage increases and inflation of goods and services standing out with "sticky" prices (see Chart 25):

In the light of such developments, despite somewhat weakened inflationary effects on the domestic economy from the external sector, the Central Bank of Armenia continued implementing a contractionary monetary policy in the course of the second half of 2022, as it lifted the policy rate by a total of 1.5 percentage points in view of the impact of persistently high demand and inflation expectations in the short term.

The inflationary effects transmitted from the external sector came significantly weaker owing to the deflationary patterns observable in respect of imported food products in the first half of 2023. However, with the demand remaining strong and inflationary effects deriving from the labor market, the price adjustment of goods and services that stand out with "sticky" prices proceeded at a slow pace. In such a situation, the Central Bank of Armenia left the policy rate unchanged up until June, keeping monetary conditions relatively tight. In June, as the deflationary trends continued and the risks of deanchoring inflation expectations were phasing out, the Central Bank reduced the policy rate by 0.25 percentage points to 10.5%.

To sum up, in the one-year period under review, the 12-month inflation has decreased by 10.8 percentage points, reaching -0.5% at the end of June of 2023, as a result of the contractionary monetary policy implementation, the dram appreciation and significantly eased inflationary influence from the external environment. The 12-month core inflation has behaved similarly, amounting to 1.5%. It is estimated that the 12-month headline inflation rate will remain below the target value in the near-term perspective but it will increase gradually and stabilize around the 4% target in the medium term.

In the one-year period under review, the 12-month inflation has decreased by 10.8 percentage points, reaching -0.5% at the end of June of 2023, as a result of the contractionary monetary policy implementation, the dram appreciation and significantly eased inflationary influence from the external environment.

3.1.2. Prices

Starting from the third quarter of 2022, the inflationary effects transmitted from the external sector have eased substantially. In the meantime, however, in the domestic inflation environment the prices of some goods and services remained elevated driven by the increase in demand.

Thus, following the escalation of the Russia-Ukraine conflict, the inflationary effects from international food product markets observable since the end of the first quarter of 2022 started weakening considerably, since the end of 2022, especially for the prices of items “Bread and cereals”, “Meat”, “Dairy products”, “Oils and fats”. This has been attributable to a fall in prices of some commodities (sunflower oil, grain, sugar) in international commodity markets in expectation of a sluggish demand and tighter financial conditions in the global economy. At the same time, year-end decreases in energy prices in the world have had their substantial impact on Armenia’s domestic fuel market prices. On the other hand, given the large influx of international visitors to the Republic of Armenia, high demand created in the Armenian economy has added to inflationary pressures in terms of locally manufactured goods and especially services, which required making adjustment to a number of tariffs for services with “sticky” prices (apartment rent, restaurants and hotels, hairdressing, financial, postal services) that have stayed elevated over the entire period under review.

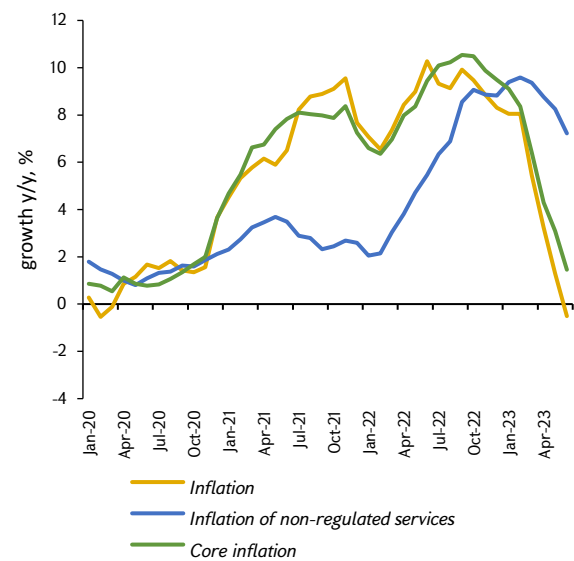
It is worth mentioning that the Armenian dram, which appreciated concurrent with growing external demand, has notably curbed the price increases of imported goods, starting from the third quarter of 2022.

The increase in prices of product groups “Tobacco articles” and “Alcoholic beverage” out of Core Inflation elements suffered, as was estimated, the inflationary effect of the change in excise tax rates at the beginning of the year, especially regarding the tobacco articles. The creeping inflation in the local market of alcoholic beverages as a result of the relatively reduced export volumes has somewhat contained the inflationary patterns in the overall product group.

In addition to the above-mentioned factors, the inflation accelerated since the start of the period under review has been considerably fueled by prices of seasonal food products grown high due to unfavorable weather conditions in the spring of 2022. Starting from the third quarter of 2022, the impact of these factors on inflation has mitigated to some extent and, starting from the first quarter of 2023, has phased out completely thanks to a noticeably warm weather.

Chart 25

In the period under review, the inflationary effects transmitted from the external sector have eased substantially, with both headline and core inflation declined sharply, although the prices of some goods and services remain elevated



Source: Armenia Statistics Committee, Central Bank of Armenia

The secondary inflationary effects of the increase in tariffs for regulated services in the first half of 2022 were particularly evident in the second half of 2022, and easing trends were observed only at the end of the period under review.

Table 4: Consumer price inflation by product group as key contributors

Product group	Weight	12-month inflation: June 2023	Contribution to inflation y/y
Core inflation	73.9	1.5	1.1
Bread and cereals	8.5	-6.2	-0.5
Meat	10.6	3.1	0.3
Oils and fats	2.9	-20.8	-0.6
Sugar	0.5	-2.8	0.0
Dairy products	4.4	3.2	0.1
Alcoholic beverage	2.5	6.7	0.2
Tobacco articles	2.0	10.1	0.2
Clothing	2.2	4.2	0.1
Footwear	1.2	5.9	0.1
Household appliances	0.6	3.6	0.0
Fuel	5.4	-9.4	-0.5
Air passenger transportation services	1.1	22.8	0.3
Outpatient care services	2.6	6.0	0.2
Actual rent paid by the tenant for additional accommodation	1.1	22.8	0.3
Restaurants and hotels	1.9	6.6	0.1
Fees for services of banks, post offices	0.8	22.7	0.2
Imported food products	15.3	-6.2	-1.0
Seasonal food products	11.0	-14.7	-1.6
Eggs	1.6	21.7	0.3
Fruits	4.1	-6.5	-0.3
Vegetables	5.3	-28.1	-1.5
Regulated services	15.1	0.1	0.0

Import prices

The prices of food products further trended down in the global economy during the second quarter of 2023, and this has been reflected in the price dynamics in the main partner countries. As a result, the dollar prices of imports to Armenia have fallen relative to the previous quarter. This was determined by the decrease in prices of all product groups. Thus, in the course of the second quarter, relative to the

previous quarter, the dollar prices of imports to Armenia have dropped by 1.7%, with a year-on-year decrease of 2.0%.

The decrease in prices of final consumption goods relative to the same period last year has been primarily driven by reduced dollar prices of goods from Russia, Turkey, China. Additionally, it is worth mentioning that the prices of commodities such as oil and wheat continued to decrease during this period. For final consumption goods, the contribution of dollar prices had a negative impact of 0.1 percentage points, while for intermediate consumption goods, the contribution was even more negative, 1.6 percentage points.

3.2. Economic developments

3.2.1. Economy position

In the period under review, the GDP gap reduced slightly, staying in the positive territory, however. In the second quarter of 2023 the economic growth amounted to 9.1%, standing a little above the estimate of the previous MP program of the Central Bank of Armenia (see section 3.2.3). The construction and highly productive service industries continued to contribute to high growth; this had a positive impact in terms of increasing production capacity in the economy. In the meantime, as a result of sustained high external and domestic demand, the GDP gap has still been in the positive territory range, further influencing the behavior of “sticky” prices, especially the inflation of services (see section 3.1.2).

A gradual narrowing of the GDP gap has been observable following the effect of a relatively contractionary monetary policy implementation and the dram’s exchange rate appreciation.

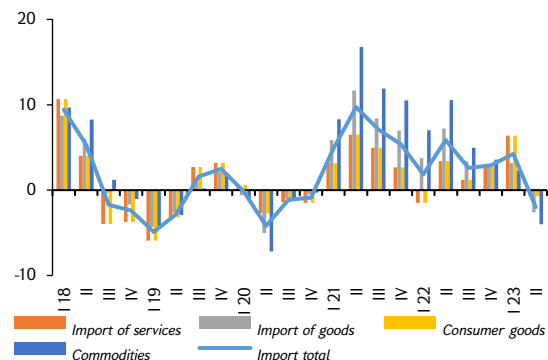
3.2.2. Expenditures aspect of the economy

The economic growth in the second quarter of 2023 was notably driven by a 14.4% increase in private spending on the back of strong growth in both private consumption and private fixed assets. Increased government spending also contributed greatly, while net exports continued to have a negative impact on the economic growth due to a faster import growth against that of export.

In the period under review, part of the income and private sector savings accumulated thanks to high external demand was channeled into consumption hence also boosting up the domestic demand. At the same time, the investment activity was further seen in the private sector, which

Chart 26

In the second quarter of 2023 the dollar prices of import of goods and services decreased against the same quarter of the previous year, y/y, %

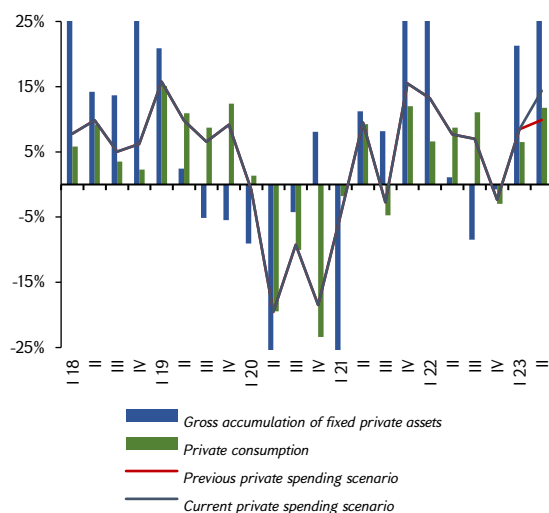


Source: Central Bank of Armenia calculations

In the second quarter of 2023 the economic growth amounted to 9.1%.

Chart 27

The structure of private spending, y/y growth



Source: Armenia Statistics Committee, Central Bank of Armenia estimate

is consistent with maintaining the organization-funded housing construction at an elevated level.

The impact of external demand remained positive during the second quarter of 2023, especially on the back of continued high growth of tourist inflows. In the meanwhile, the growth rate of export of goods has gradually adjusted following the overreaction in the previous year. As for import of goods and services, note that the gradual decline in savings generated in the course of the previous year, on the one hand, and the increased demand for consumer loans, on the other, pointed to added domestic consumption and faster growth of real import of goods and services. As a result, in the second quarter of 2023 the growth of real export of goods and services was 25.4% y/y, and the growth of real import of goods and services, 35.3% y/y.

To sum up, it should be noted that the contribution of net real exports to GDP in the course of the second quarter has been strongly negative.

In the second quarter of 2023, the growth of net remittances of individuals, which include income of seasonal workers and personal transfers, was adjusted downward, following the high growth observable in the previous year (the decrease was slightly higher than expected). Estimated at about 51.0% y/y, the decrease in the dollar equivalent of remittances was partly due to the depreciation of the Russian ruble during the quarter.

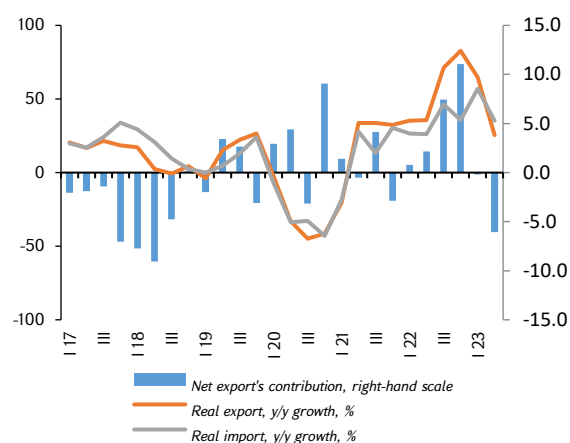
Fiscal policy⁶

In the second quarter of 2023 the state budget posted overperformed revenues and underperformed expenditures against the Central Bank of Armenia projections. As a result, the fiscal policy's impact on aggregate demand is estimated 0.5 percentage point expansionary.

In the second quarter of 2023 the state budget revenues amounted to 105.1% of the adjusted plan, primarily owing to higher tax revenue collection. Other revenues also came in overperformed against the plan. Tax revenues of the state budget of the Republic of Armenia outstripped the projected figure in the light of reported high economic growth since the start of the year. As a result, the revenues impulse has been 2.0 percentage points contractionary.

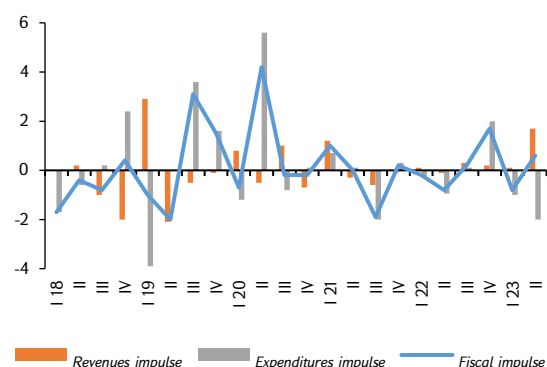
In the second quarter of 2023 the state budget expenditures amounted to 99.5% of the figure expected by the Central Bank of

Chart 28
In the second quarter of 2023 the contribution of net export was deeply negative, y/y, %



Source: Armenia Statistics Committee

Chart 29
In the second quarter of 2023 the fiscal policy's impact was contractionary relative to the previous quarter



Source: Central Bank of Armenia estimate

The impact of fiscal policy on aggregate demand is estimated 0.5 percentage point expansionary.

⁶ The review of the fiscal sector was done using the actual consolidated budget indicators of the second quarter.

Armenia. Consequently, the expenditures impulse came in less expansionary relative to the previous quarter: 1.7 percentage points instead of the previously estimated 2.0 percentage points expansionary. In the state budget's expenditures structure, the current expenditures were underperformed while the expenditures on non-financial assets overperformed against the Central Bank of Armenia projections.

In the outcome, in the second quarter of 2023, with the revenues and expenditures developments mentioned above, the Republic of Armenia state budget generated an AMD 67.2 billion-worth surplus (budget funds intended as part of domestic sources of financing outgrew the needs). In the meantime, the deficit of the consolidated budget amounted to about AMD 74.8 billion.

3.2.3. Production aspect of the economy

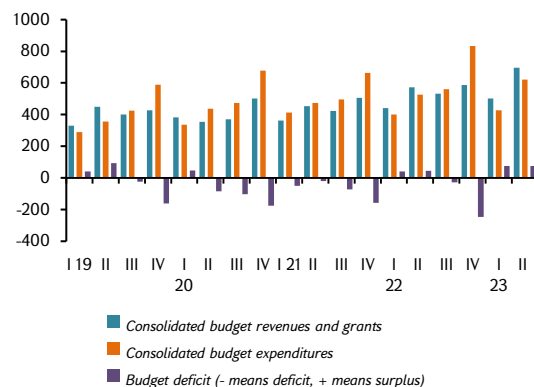
In the second quarter of 2023 the economic growth amounted to 9.1% – somewhat higher from the previous estimations by the Central Bank of Armenia. The services and construction sectors with their reported increases of 11.4% and 21.6%, respectively, further contribute to high economic growth. Strong growth in services continues to be supported by the information and communication industry, with a steady increase in registered new businesses there, which is a positive stimulus in terms of increasing GDP and export potential. Other service branches, driven by both strong domestic and external demand, are reporting high performance, as well. In construction sector, real estate development remains the main driver. The state budget-funded construction, mainly in the transport branch, continues.

The industry and agriculture sectors reported a decline: -2.9% and -0.6%, respectively. In industry, the main negative contribution came from the contraction in mining, coupled with somewhat decelerated activity in manufacturing. The developments in the agricultural sector are determined by a decline in both animal breeding and plant growing.

3.2.4. Labor market

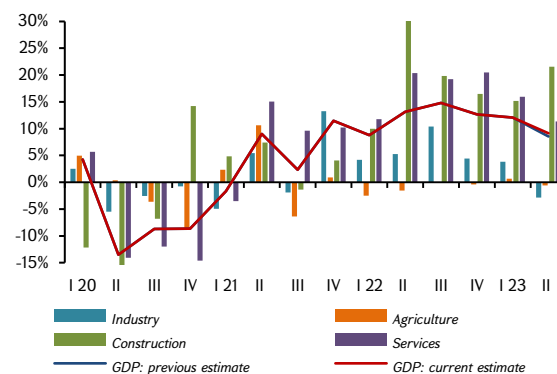
In the second quarter of 2023 the unemployment rate is estimated around 13.9%. Although somewhat higher from the previous Central

Chart 30
In the second quarter of 2023 the state budget generated a surplus (billion of Armenian dram)



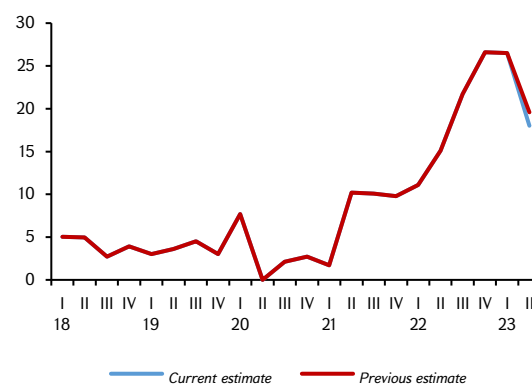
Source: Armenia Statistics Committee

Chart 31
The GDP structure by sector, y/y growth, %



Source: Armenia Statistics Committee, Central Bank of Armenia estimate

Chart 32
Private nominal wage growth y/y (%)



Source: Armenia Statistics Committee, Central Bank of Armenia estimate

Bank of Armenia estimates, the unemployment rate is still below the long-term sustainable level.

In the period under review, the growth of nominal private sector wages amounted to 18%, again slightly below the Central Bank of Armenia projection. The wage growth continues to be demonstrated primarily in the services sector, which is also commensurate with strong output growth in that sector and current inflation environment.

The real wage growth in the private sector amounted to around 16% in the light of strong nominal wage growth and sluggish inflation environment.

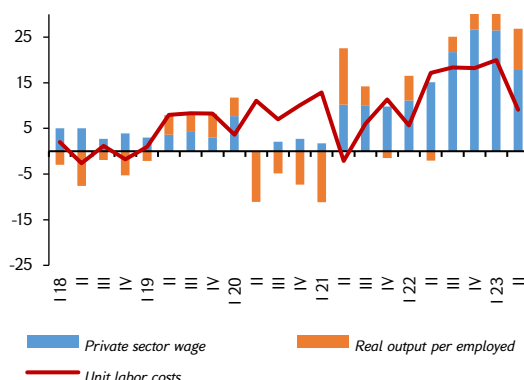
In this respect, even though the private wage growth slowed down, it remains elevated, which is also in line with the narrowing of the GDP gap.

3.3. Financial market developments

In the second quarter of 2023 the Board of the Central Bank of Armenia reduced the refinancing rate by 0.25 percentage point to 10.5%.

Higher-than-expected economic activity in Armenia recorded in the second quarter of 2023, a certain increase in growth potential of the economy contributed to mitigating of supply and demand imbalances. On the other hand, the sustained high external demand and increase in income in the economy have contributed positively to the expanding of aggregate demand. The considerably weakened inflationary effects transmitted from the external sector, implemented contractionary monetary policy and appreciation of the dram all facilitated the easing of the domestic inflation environment at a rapid rate. However, in view of high demand and inflation expectations, the inflation of services and some goods adjusted more slowly, which prompted the Board of the Central Bank of Armenia to reduce the refinancing rate in smaller steps; in the second quarter, as a result, it was lowered by 0.25 percentage point. The Board also stated that it would be consistent in taking up all required action to regulate demand and stabilize inflation expectations.

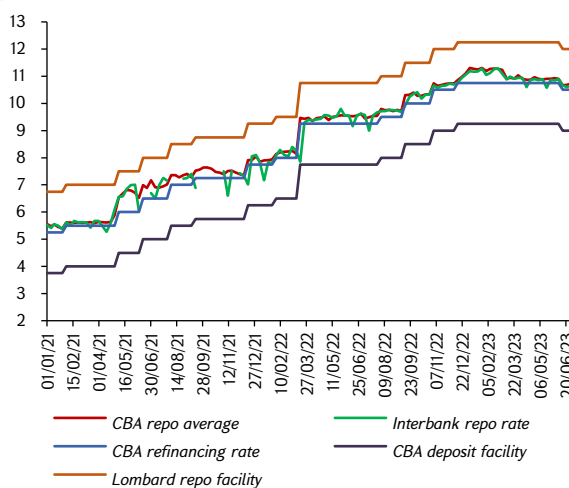
Chart 33
Unit labor costs growth y/y (%)⁷



Source: Armenia Statistics Committee, Central Bank of Armenia estimate

In the second quarter of 2023 the Board of the Central Bank of Armenia lowered the refinancing rate by 0.25 percentage point to 10.5%.

Chart 34
During the quarter the short-term interest rates continued shaping around the Central Bank's policy rate



Source: Central Bank of Armenia

⁷ In unit labor costs, the productivity is represented by a negative contribution.

Table 5: Average interest rates in Armenia's financial market

Indicators	15.06.22-02.08.22	03.08.22-13.09.22	14.09.22-01.11.22	02.11.22-13.12.22	14.12.22-31.01.23	01.02.23-29.03.23	01.04.23-13.06.23	14.06.23-29.06.23
Central Bank refinancing rate	9.25	9.5	10.0	10.5	10.75	10.75	10.75	10.50
Central Bank repo rate	9.53	9.75	10.32	10.7	11.11	11.12	10.90	10.67
Interbank repo rate (up to 7-day)	9.55	9.67	10.32	10.66	11.11	11.06	10.82	10.64
Yield of government securities on a yield curve (average indicator)								
Short-term treasury bills (1-year)	10.41	10.46	10.86	11.50	11.67	11.54	11.44	11.06
Medium-term notes (5-year)	10.98	11.02	11.43	11.83	11.94	11.76	11.40	10.91
Long-term bonds (30-year)	11.59	11.69	12.04	12.11	12.02	11.85	11.37	10.64

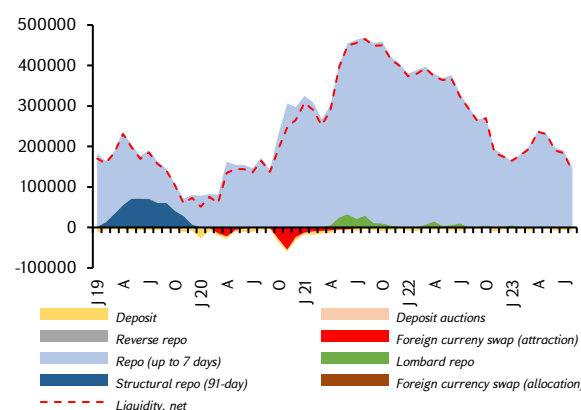
In the second quarter of 2023 the domestic financial system further demonstrated high liquidity and capital levels. The banking system's demand for provision of liquidity through the main instrument of the Central Bank of Armenia continued decreasing to some extent this quarter. Nevertheless, the short-term interest rates in the dram market came to shaping around the policy rate.

In the second quarter of 2023 the government securities market posted a decline in the yield curve across segments, which is in line with the Central Bank of Armenia actions in the same period of time. Long-term interest rates fell more than short-term interest rates, reflecting the markets' expectations for inflation developments and future interest rates. Furthermore, high liquidity in the financial market may also suppress yields on long-term securities. The average decline in yields on government securities along the entire curve since the start of the year has been about 0.8 percentage point.

The funds attracted and provided by commercial banks continued to grow during the second quarter of 2023. At the same time, an increase in interest rates of loans to households was recorded. This may be partly driven by high demand for consumer loans, which is commensurate with strong domestic demand growth observable in the economy.

Chart 35

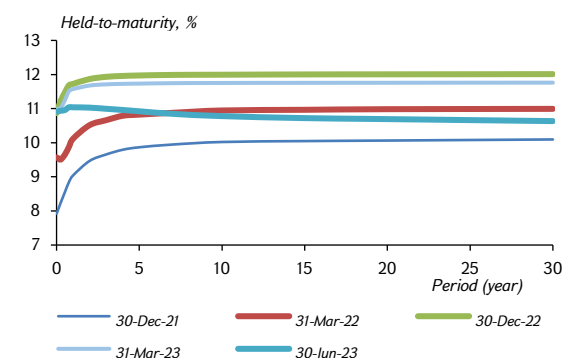
Liquidity injected and absorbed through Central Bank transactions (average monthly inventory, million Armenian dram)



Source: Central Bank of Armenia

Chart 36

In the second quarter of 2023 the government security yield spreads narrowed in short- and long-term segments

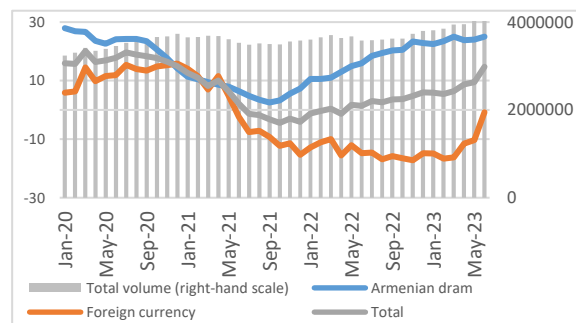


Source: Central Bank of Armenia

According to the Central Bank of Armenia surveys, commercial banks have started offering somewhat easier terms of lending. In the meanwhile, the demand for loans has increased. The housing construction sector remains vibrant, which indicates a steady growth of mortgage loans.

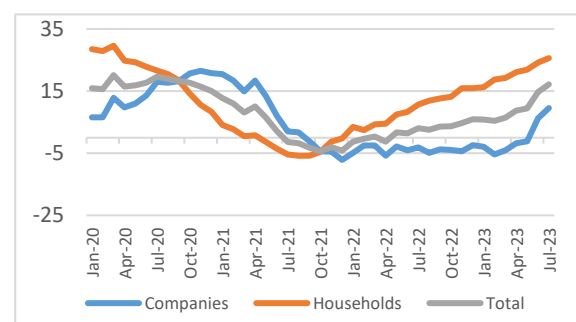
In the currency market in the second quarter of 2023, the Armenian dram appreciated against the US dollar and the Russian ruble, while performing relatively steady vis-à-vis the European currency, the euro. The dram appreciation was further supported by international visitors' high demand for domestic services and increased output and export of high productivity services. On the other hand, strong domestic demand and accelerated imports have somehow offset the depreciation pressures. The vast inflow of foreign currency overtook, in some episodes, the absorbing capacity of Armenia's currency market, causing market disruption risks. The Central Bank of Armenia reacted to this through situational intervention in the market by purchasing foreign currency and helping the financial markets return to normal functioning. Net purchase of US dollars by the Central Bank of Armenia during the second quarter amounted to USD 589.9 million.

Chart 37
Change in the loans provided by banks (12-month change)



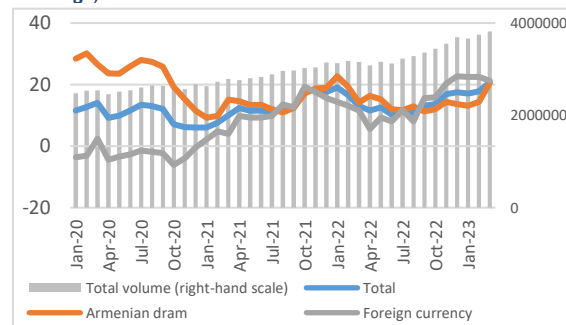
Source: Central Bank of Armenia

Chart 38
Change in the loans provided by banks as per sector (12-month change)



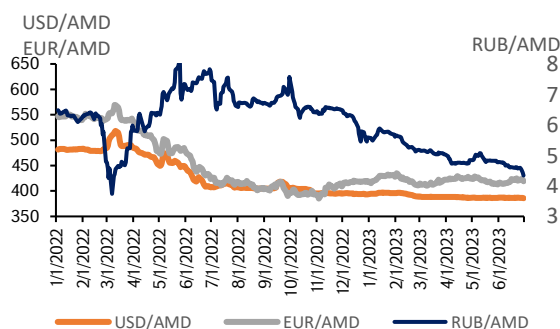
Source: Central Bank of Armenia

Chart 39
Change in the deposits attracted by banks (12-month change)



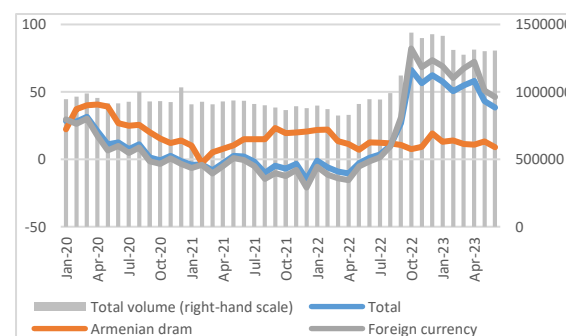
Source: Central Bank of Armenia

Chart 41
The behavior of currency exchange rates versus



Source: Central Bank of Armenia

Chart 40
Change in the deposits attracted by banks (12-month change), (non-residents)



Source: Central Bank of Armenia

4. SUMMING-UP

According to the scenario outlined in the Q3, 2023 monetary policy program of the Central Bank of Armenia, the low inflation environment will persist in the near future, yet the prices of services and a number of goods will further remain elevated, incurring the effect of still high demand. Given the developments mentioned above, at this stage the Central Bank of Armenia finds it reasonable to reduce the policy rate in a relatively big step. In the meantime, the Central Bank will be consistent in taking required action to further regulate the demand and stabilize the inflation expectations. In view of the monetary policy implemented by the Central Bank of Armenia and expected macroeconomic developments, the 12-month inflation will stand below the target in the near term; it then will gradually increase and stabilize around the 4% target in the mid-term perspective.

For the 3-year policy horizon as presented in the scenario, the probability risks of inflation deviating from the projection path are mostly balanced, and in the event any such risks materialize, the Central Bank of Armenia will stand ready to react accordingly to ensure the price stability objective in the medium run.

MINUTES
OF THE CENTRAL BANK OF ARMENIA
BOARD MEETING
(12.09.2023)

On the refinancing rate

**The Central Bank Board Meeting of September 12, 2023 attended
by Governor Martin Galstyan, Deputy Governors Armen
Nurbekyan and Hovhannes Khachatryan, Board Members Hasmik
Ghahramanyan, Davit Nahapetyan, Artak Manukyan, Levon
Sahakyan, Narek Ghazaryan**

The meeting of the Board of the Central Bank of Armenia started with presentation of the Situation Report as of September 12, 2023. It addressed the developments on inflation, external environment, and real, fiscal, financial, and monetary sectors of the economy.

Current developments in the external sector were presented. In the third quarter of 2023, it was recorded, the economic activity in the world and the main partner countries to Armenia remains sluggish, as well as the risks of weaker economic activity have substantially increased. With such developments in the global economy as well as contractionary monetary policy implementation in place, the overall inflation environment in the world continued to soften significantly. This was reflected by certain deflationary patterns observable in international commodity markets, as a result of which the prices will remain low in the near future. Nevertheless, influenced by inflationary pressures from the labor market and driven by sustained high demand, the prices of goods and services that stand out with “sticky” prices still remain elevated. In such a situation, the central banks of the main partner countries to Armenia will further pursue a relatively contractionary monetary policy in the near future. The estimation is that the deflationary effects transmitted from the external sector to the Armenian economy will persist as a result of gradual weakening of demand and inflation under tight financial conditions.

The Board discussed the current developments in the Armenian economy; it was recorded that the economic activity growth in Armenia somewhat slowed down during the third quarter but is still at a high level thanks to strong growth recorded mainly in services and construction. During the quarter, despite some decline, aggregate demand also remains relatively high, which is supported by sustained high growth in both external and domestic demand. The external demand, it was noted,

is shored up by still high growth rates of capital and labor inflows amid tourism growth, while the increase in domestic demand largely owes to accelerating private consumption growth rates.

Armenia's financial market developments were addressed; in the third quarter of 2023, it was stated, the short-term market interest rates came to again shaping mostly around the policy rate. During the quarter, in order to ensure normal functioning of the financial market, the Central Bank of Armenia continued its situational intervention in the domestic currency market through purchases of foreign currency. It was also admitted that with domestic demand accelerating, consumer loans are rapidly growing, and the banking system maintains high liquidity and capital levels.

The Board proceeded to discussing the inflation developments; it was stated that 0.1% of inflation was recorded in August of 2023, compared to the previous month, due to the increase in prices of non-food products and service tariffs by 0.6% and 0.4%, respectively. Prices of food products decreased by 0.3% during the month. As a result, the 12-month inflation remained almost unchanged, making up -0.2% at the end of the month. The 12-month core inflation continued to subdue, reaching 0.4%. The inflation expectations, it was also noted, subsided to some extent during the third quarter, driven by deflationary effects from the external sector, the contractionary monetary policy implemented by the Central Bank of Armenia, and the dram's appreciation. However, the inflation of services and some goods adjusts relatively slowly.

Following the discussion of the Situation Report and the macroeconomic developments in external and domestic sectors, the Board proceeded to addressing the macroeconomic scenarios and monetary policy directions, and to making decision on the policy interest rate. Given the aforementioned macroeconomic situation, the policymakers' team apprised the Board of the scenarios describing the monetary risks that would possibly derive from upcoming economic development outlooks. The members of the Board, discussing a variety of scenarios of economic development, agreed that inflation and inflation expectations had somewhat subsided as a result of deflationary effects transmitted from the external sector and the implemented monetary policy, largely offsetting the risks to deanchoring of inflation expectations. Taking into account the above factors and the scenarios of a notable slowdown in the global economy, on the one hand, and possible acceleration of potential growth of the Armenian economy, on the other, some members of the Board were of the opinion that loosening monetary conditions in a quick and big step would be more appropriate in terms of managing the probable deflationary risks. Others reckoned that, even

with an environment of low inflation, aggregate demand persisted high, labor market remained somewhat overheated despite a little slowing in the wage growth rate, while inflation lingered high in the services sector. Consequently, in their opinion, future inflationary risks were not fully neutralized, so the adopted policy needed to be continued along with increased care in regard to a change of monetary conditions, aiming to reduce the interest rate in a smaller step. As a result, the **Board of the Central Bank of Armenia decided to reduce the refinancing rate by 0.5 percentage point**. The Board also endorsed its commitment in taking adequate measures to regulate demand and stabilize inflation expectations. As outlined in the monetary policy scenario, the 12-month inflation will remain below the target in the near future, it then will gradually increase and stabilize around the 4% target in the medium term.

The Board also estimated that the risks of inflation deviating from the projection path are mostly balanced. In the event the risks materialize in any direction, the Board will react accordingly to ensure the price stability objective.

The Board approved the decision on interest rates of monetary instruments of the Central Bank of Armenia and the proposed press release, which are attached hereto.

THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA

BOARD DECISION

September 12, 2023, No. 141 L

ON THE SETTING OF INTEREST RATES OF MONETARY POLICY INSTRUMENTS OF THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA AND THE PRESS RELEASE ON THE REFINANCING RATE

By virtue of Article 2 (3), Article 20 “c” and “e” of the Republic of Armenia Law on the Central Bank, and clauses of the Republic of Armenia Law on Normative Regulations, the Board of the Central Bank of the Republic of Armenia **enacts:**

1. Set the Refinancing rate of the Central Bank of the Republic of Armenia to be 9.75%.
2. Set the Lombard facility rate offered by the Central Bank of the Republic of Armenia to be 11.25%.
3. Set the Deposit facility rate offered by the Central Bank of the Republic of Armenia to be 8.25%:
4. Approve the Press Release on the Refinancing Rate of the Central Bank of the Republic of Armenia (attached).
5. This decision to take effect on the day following its publishing on Internet homepage of the Central Bank of the Republic of Armenia.

Martin Galstyan,
Governor of the Central Bank of the Republic of Armenia

c. Yerevan

PRESS RELEASE
12.09.2023

At the September 12, 2023 meeting, the Board of the Central Bank of Armenia decided to reduce the refinancing rate by 0.5 percentage points, setting it at 9.75 %.

In August 2023, the 12-month inflation remained almost unchanged, amounting to -0.2%. The 12-month core inflation continued to decrease; it reached 0.4% at the end of August.

Risks of decline in global economic activity have increased substantially. In the main partner countries of the Republic of Armenia, the 12-month inflation keeps on decelerating but the prices of goods and services with “sticky” prices remain elevated. Consequently, the central banks of the partner countries will continue to conduct a relatively contractionary monetary policy. Under tight financial conditions and a slowdown in global economic activity, prices in international commodity markets will further stand at low levels. As a result, deflationary effects on the Armenian economy from the external sector will carry on.

In the third quarter of 2023, high growth rate of economic activity in the Republic of Armenia slowed down, still staying at a high level. The economic growth continues to be supported by high growth in the construction and services. The latter bear the effects of strong domestic and external demand in the economy. As deflationary effects spill over to the domestic economy from the world economy, the Central Bank of Armenia implements a contractionary monetary policy, and the dram appreciation continues, high demand and inflation expectations contributing to inflation have decreased to some extent. However, inflation in services and some goods is adjusting relatively slowly.

The Board of the Central Bank of Armenia finds it appropriate to reduce the policy rate. The Board will be consistent in taking action to handle demand and stabilize inflation expectations. As outlined in the monetary policy scenario, the 12-month inflation will remain below the target in the near future, then it will gradually increase and stabilize around the 4% target in the medium term.

The Board estimates that the risks to inflation deviating from the projected path are mostly balanced. In the event these risks materialize in any direction, the Board will react accordingly in fulfilment of the price stability objective.

Press Service of the Central Bank of
the Republic of Armenia

ARMENIA'S MAIN MACROECONOMIC INDICATORS ACCORDING TO THE SCENARIO PRESENTED

Indicators	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	actual	actual	actual	actual	actual	actual	actual	actual	program	program	program
External sector											
USA economic growth (% real growth)	2.7	1.7	2.3	2.9	2.3	-2.7	6.1	2.1	2.3	1.4	2.1
Eurozone economic growth (% real growth)	1.9	1.8	2.7	1.9	1.6	-6.3	5.5	3.5	0.7	-0.2	0.5
Russia economic growth (% real growth)	-1.9	0.2	1.8	2.8	2.0	-2.9	4.8	-2.0	2.9	1.2	0.0
USA inflation (average, %)	0.1	1.3	2.1	2.4	1.8	1.2	4.7	8.0	4.1	2.9	2.5
Eurozone inflation (average, %)	0.0	0.2	1.5	1.7	1.2	0.3	2.6	8.4	5.6	3.2	2.3
Russia inflation (average, %)	14.4	6.8	3.6	2.8	4.5	3.4	6.7	13.7	5.3	6.7	5.1
Oil price (dollar/barrel)	53.5	45.0	54.6	71.4	64.1	42.5	71.0	98.7	80.8	80.1	81.2
Copper price (dollar/ton)	5497.4	4867.6	6201.5	6544.7	6024.1	6191.2	9288.1	8956.0	8452.5	8442.4	8581.9
FAO index	93.0	91.9	98.0	95.9	95.1	98.1	125.7	143.6	125.1	124.4	126.9
Domestic economy											
Prices											
Inflation (y/y, end period, %)	-0.1	-1.1	2.6	1.8	0.7	3.7	7.7	8.3	0.2	2.6	3.5
Consumer price index (y/y, average, %)	3.7	-1.4	1.0	2.5	1.5	1.2	7.2	8.6	2.0	2.6	2.9
Core inflation (y/y, average, %)	5.1	-2.0	0.8	4.0	1.2	1.3	7.2	8.9	2.5	0.7	3.6
Gross product											
GDP (billion of Armenian dram)	5043.6	5067.3	5568.9	6017.0	6543.3	6181.7	6983.0	8496.8	9474.8	10405.6	11384.5
GDP (% real growth)	3.2	0.2	7.5	5.2	7.6	-7.4	5.7	12.6	7.2	5.6	5.2
Supply											
Industry (% real growth)	6.2	7.7	11.7	4.9	12.0	-1.7	3.5	6.3	1.0	5.3	4.8
Agriculture (% real growth)	13.2	-5.0	-5.1	-6.9	-5.8	-4.1	-0.6	-0.7	-1.1	2.4	2.8
Construction (% real growth)	-3.1	-14.1	2.8	0.6	6.5	-6.7	3.1	19.1	18.4	12.8	8.6
Services (% real growth)	1.6	3.2	10.6	9.1	10.0	-9.7	7.9	18.1	9.0	5.1	4.9
Tax, net (% real growth)	-5.1	-3.7	9.7	8.0	7.1	-10.0	7.4	8.2	9.5	6.4	6.2
Demand											
Consumption (% real growth)	-6.0	-2.1	11.6	3.8	11.7	-10.9	4.2	7.7	10.1	4.4	4.7
Public consumption (% real growth)	4.7	-2.4	-2.1	-3.0	12.9	9.2	8.4	6.5	10.7	4.0	3.5
Private consumption (% real growth)	-7.5	-2.1	14.0	4.8	11.5	-14.0	3.4	8.0	10.0	4.5	4.9
Gross accumulation of fixed assets* (% real growth)	2.5	-11.4	9.7	4.8	4.4	-1.5	6.3	9.5	21.4	9.5	8.8
Public investment** (% real growth)	13.6	5.0	31.7	-37.4	31.1	16.2	-9.9	41.1	39.1	19.5	15.9
Gross accumulation of private fixed assets (% real growth)	1.2	-13.9	6.2	19.6	-0.5	-5.7	11.2	1.9	17.0	6.3	5.8
Export of goods and services (% real growth)	4.9	21.3	19.3	5.0	16.0	-33.4	16.6	54.4	19.3	-3.0	2.6
Import of goods and services (% real growth)	-15.3	6.3	24.6	13.3	11.6	-31.4	12.9	33.8	29.8	-6.2	3.2
Current account											
Balance of trade (million of US dollar)	-1186.4	-976.9	-1400.9	-1724.4	-1727.9	-1382.2	-1504.8	-2016.1	-3177.6	-2666.8	-2776.0
Balance of services (million of US dollar)	-96.4	70.4	159.4	24.7	-66.9	118.0	396.9	1429.4	2286.8	2087.4	2088.6
Money transfers (million of US dollar)	1098.3	1009.4	1179.3	1136.2	1143.8	1046.2	1243.1	1630.5	1001.5	967.3	899.3
Current account (million of US dollar)	-284.7	-107.9	-173.9	-875.9	-1002.3	-477.8	-515.1	14.8	-893.4	-406.9	-542.8
Balance of trade (share in GDP, %)	-12.2	-8.6	-10.8	-13.7	-13.1	-10.0	-7.9	-3.0	-3.4	-2.2	-2.4
Balance of services (share in GDP, %)	-0.9	0.7	1.4	0.2	-0.5	0.9	2.8	7.3	8.8	8.0	7.4
Money transfers (share in GDP, %)	10.4	9.5	10.2	9.1	8.4	8.3	8.9	8.3	3.9	3.7	3.2
Current account (share in GDP, %)	-2.7	-1.0	-1.5	-7.0	-7.3	-3.8	-3.7	0.1	-3.4	-1.6	-1.9
Public sector***											
Revenues and grants (billion of Armenian dram)	1167.7	1171.1	1237.8	1342	1559.1	1560.4	1683.8	2046.0	2333.7	2664.2	3033.7
Tax revenues (billion of Armenian dram)	1067.9	1079.7	1158	1258	1464.3	1385.2	1586.9	1926.0	2235.4	2566.2	2944.2
Expenditures (billion of Armenian dram)	1409	1449.1	1504.8	1447	1623	1894.3	2004.3	2243.5	2550.8	2966.7	3353.4
Deficit (billion of Armenian dram)	-241.3	-278	-267	-105.4	-63.9	-333.9	-320.5	-197.5	-217.1	-302.5	-319.7
Revenues and grants (share in GDP, %)	23.2	23.1	22.2	22.3	23.8	25.2	24.1	24.1	24.6	25.6	26.6
Tax revenues (share in GDP, %)	21.2	21.3	20.8	20.9	22.4	22.4	22.7	22.7	23.6	24.7	25.9
Expenditures (share in GDP, %)	28	28.6	27	24.1	24.8	30.6	28.7	26.4	26.9	28.5	29.5
Deficit (share in GDP, %)	-4.8	-5.5	-4.8	-1.8	-1	-5.4	-4.6	-2.3	-2.3	-2.9	-2.8
Monetary sector											
Broad money (y/y, end period, %)	10.8	17.5	18.5	7.5	11.2	9	13.1	16.1	0	0	0
Dram broad money (y/y, end period, %)	5.2	24.8	28.9	13.2	21.5	14.8	12.8	13.4	0	0	0
Loans to economy (y/y, end period, %)	-3.3	6	16.5	17.2	18.5	14.3	-3.9	4.5	0	0	0
USD/AMD (Armenian dram for one US dollar)	477.9	480.5	482.7	483	480.4	489	503.8	435.7	0	0	0

* From now on the Central Bank of Armenia will only present the indicator of gross fixed asset accumulation instead of gross accumulation, since the change in tangible working capital inventories is calculated by Armenia's Statistics Committee as a balancing item and it does not show the true level of gross accumulation. See https://www.armstat.am/file/article/sv_04_19a_112.pdf

** Actual indicators of public investment are the capital expenditures of the consolidated budget, and the estimates are based on a revised macro-framework, 2024-2026, available at the time.

*** The 2023 budget indicators are the Central Bank of Armenia estimate. The 2024-2026 indicators are presented from the state Mid-Term Expenditures Framework.

Yerevan, 2023

