

Inflation report 2022/2 (Monetary Policy Program Q2, 2022, Status report on implementation of the Monetary Policy Program, Q1, 2022)

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Executive summary

In the second quarter of 2022, under the impact of the Russian-Ukrainian conflict, the sanctions applied to the Russian economy, and the great uncertainty derived thereof, trends of economic slowdown in the main partner countries of Armenia continue. At the same time, in international commodity markets, as well as in partner economies a continuous expansion of the inflationary environment and an increase in inflationary expectations are observed as a result of the ongoing disruptions in supply chains. The impact of such developments in the external sector on the Armenian economy is expressed on the one hand by the inflationary impact transmitted to domestic prices through a number of imported products, while on the other, a high growth of economic activity and a certain expansion of the inflationary environment under the impact of strong acceleration of external demand in services sector.

In the second quarter, after the decrease in the previous quarter, the 12-month inflation grew again totaling to 9.0% in May. According to the Central Bank's presented scenario, the effects of global inflationary trends and external demand prevailing in the current inflation factors will weaken in the near future amid the concomitant AMD appreciation, subduing inflation and neutralizing the risks related to inflationary expectations. In view of this and the fact that the previous contraction of monetary conditions by a relatively large step was sufficient to mitigate the high inflation environment, the Central Bank has refrained from changing policy interest rate at this stage. At the same time, the Central Bank will consistently ensure stabilization of inflation through adequate actions and counteract every risk of deanchoring of inflation expectations.

As a result of the implemented monetary policy and the expected macroeconomic developments, the 12-month inflation will gradually decrease and stabilize around the 4% target from the second half of 2023.

According to the scenario presented to the Central Bank, high economic activity will persist in the near future, as a result of which in 2022 the economic growth rate will be

significantly higher than the previous estimate. In the medium term, it will gradually decrease and stabilize around the long-term equilibrium level.

The expected economic growth in 2022 will mainly be driven by high demand in the service sector under the impact of extensive foreign visitors and financial inflow to Armenia driven by the persisting Russian-Ukrainian conflict. At the same time, in parallel with external demand, a certain acceleration of domestic consumption is observed within the structure of aggregate demand, due to the resumed growth of the deferred private spending. In the medium term, the economic growth will gradually decrease and approach the estimated long-term sustainable levels amid weakening external demand.

Risks of inflation deviating from the projected trajectory in the forecast horizon are balanced, whereas in terms of the economic growth, upward risks prevail slightly (see the details in Subsection 2.2.4 “Key Assumptions and Risks”). In terms of inflation, risks mainly come down to problems associated with transportation of goods from Armenia for export and for import by land route, disruptions of global supply chains, as well as spill-over effects of dram appreciation on inflation. In case of emergence of any risks, the Central Bank stands ready to respond adequately, in order to ensure the achievement of the price stability objective.

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[Graphs and tables \(2nd quarter\)](#)