

Inflation report 2022/4 (Monetary Policy Program Q4, 2022, Status report on implementation of the Monetary Policy Program, Q3, 2022)

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Executive summary

In the fourth quarter of 2022, the slowdown of global economic activity, particularly among the main partner countries of Armenia, continues. Parallel to that, a high inflationary environment persists in the main partner countries of Armenia, mainly due to still positive developments in demand. As a result of contractionary monetary policy aimed at alleviating the high inflation in the developed countries, a certain drop of prices in international commodity markets is observed. Unlike the global economy, in Armenia high growth of economic activity is observed, which continues to be significantly supported by the high external demand in the services sector. Despite the resulting gradual weakening of inflationary effects spilled over from the external sector and certain alleviation of the domestic inflationary environment as a result of the consistent monetary policy and dram appreciation, inflation dynamics is still strongly affected by high demand and inflationary expectations.

In overall, amidst the substantial uncertainties, the Central Bank tries to mitigate the ensuing risks by constructing and reviewing different scenarios of further developments, one of which is presented in detail in this program.

The 12-month inflation remained high in the fourth quarter, totaling to 8.8% in November. According to the CBA's scenario, the actual high demand will significantly contribute to the high inflationary environment and inflationary expectations in the near future, hence the Central Bank continued to raise the policy rate at this stage too.

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 in the future.

According to the CBA scenario, high economic activity will continue in the near future, as a result of which in 2022, high economic growth close to the previous scenario is expected. 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 facilitated by the fairly high growth of the services and construction sectors. As a result of the demand adjustment, in the medium term the positive GDP gap will shrink and economic growth will slow down. At the end of the horizon, economic growth will be close to its long-term stable level of 4.0%.

Risks of inflation and economic growth deviating from the projected trajectory in the 3 year policy horizon are balanced (see Subsection 2.2.4). In case of emergence of risks in any direction, the Central Bank stands ready to respond adequately, in order to ensure the price stability objective.

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[Graphs and tables Q4, 2022](#)