

Inflation report 2022/3 (Monetary Policy Program 3Q 2022, Status report on Implementation of the Monetary Policy Program 2Q 2022)

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Executive summary

In the third quarter of 2022, the slowdown in global trends of economic activity continued, particularly among the main partner countries of Armenia, mostly because of the Russian-Ukrainian conflict and the impact of various sanctions imposed on Russia. At the same time, as a result of the restraining monetary policy aimed at alleviating the high inflation environment in the partner countries, a gradual easing of the inflationary environment and a certain decrease of prices in international commodity markets is observed. Domestic economy still stays higher than expected, mainly due to demand factors. The latter are mostly expressed by a strong increase of external demand in the service sector, influenced by a significant inflow of international visitors, including tourists, and financial flows. While, in such circumstances, inflationary effects from the external sector are gradually weakening, domestic inflationary environment continues to expand, and inflationary expectations remain high, mainly due to the high demand.

The 12-month inflation remained high in the third quarter, totaling to 9.1% in August. According to the CBA's presented scenario, the actual high demand will significantly contribute to the high inflationary environment and inflationary expectations in the near future, therefore the Central Bank raised the policy interest rate at this stage again. 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 by close of 2023.

According to the CBA scenario, high economic activity will continue in the near future, as a result of which in 2022 economic growth will be significantly higher than the previous estimates. In the medium term, it will gradually decrease and stabilize around the long-term equilibrium level. In 2022, the expected economic growth will mainly be due to the high demand in the service sector under the influence of international visitors to Armenia,

including tourists, and large-scale financial inflows. As a result of the gradual adjustment of the positive demand environment in the medium term, the economic growth will somewhat slow down, however, it will still remain high compared to the previous projections, due to the expected higher growth of state capital expenditures and productivity. It is expected that GDP growth will remain around its adjusted long-term sustainable level of 4.1% over the forecast horizon.

Risks of inflation deviating from the projected trajectory in the forecast horizon are balanced, whereas in terms of the short-term economic growth, downward risks prevail slightly (see the details in Subsection 2.2.4 “Key Assumptions and Risks”). 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 \(3rd quarter\)](#)