

Status Report on Implementation of the Monetary Policy Program (Q1, 2022 - Q4, 2022)

2023-02-28

(2022/4) In the one-year period between the 1st quarter and the 4th quarter of 2022 Armenia's inflation environment has been high, with the latter largely determined by the influence of escalation of the Russian-Ukrainian conflict since the end of February, various sanctions imposed on Russia and many uncertainties derived from them. These factors, in the aftermath effects of the coronavirus pandemic, again led to significant supply chain disruptions that were expressed in international commodity markets by a sharp increase in the energy and food product prices, having thus caused spillovers on the domestic prices in Armenia through a number of imported goods. Persisting high inflation has also been fueled by a strong aggregate demand, in the services sector in particular, created as a result of a huge influx of international visitors and financial assets to Armenia in the wake of the Russian-Ukrainian conflict. At the same time, influenced by a large financial influx, a continuous appreciation of the dram was observable in the Armenian currency market during the year, containing the inflationary patterns to a certain extent.

Based on the current situation and in view of the principle of forward-looking policy implementation, the Central Bank of Armenia continued to pursue the tightening of monetary conditions in the period under review, raising the policy rate by a total of 3.0 pp, of which 1.25 pp in March 2022 alone, reacting to a mid-term high inflationary environment estimated in the context of high uncertainty since the end of February. In the period under review, the 12-month inflation increased significantly since March 2022, reaching 10.3% at the end of the second quarter; it then gradually decreased, as a result of the monetary policy implementation, down to 8.3% at the end of the year. It is estimated that the inflation rate will gradually subdue and stabilize around the 4% target, starting from the second half of 2023, owing to the effect of the consistent monetary policy implementation.

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