

Status Report on Implementation of the Monetary Policy Program (Q2, 2022 - Q1, 2023)

2023-05-30

(2023/1) Early in the period between the 2nd quarter of 2022 and the 1st quarter of 2023 the inflation environment in the Republic of Armenia has expanded due to 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. High inflation environment persisted up until the end of 2022, which was also driven by strong aggregate demand created on account of a large-scale influx of international visitors and financial resources to Armenia in the wake of the Russian-Ukrainian conflict. At the same time, influenced by the large financial influx, continued appreciation of the dram was observable in the Armenian currency market during the year. The contractionary monetary policy implemented by central banks of the leading countries since the end of 2022 has brought about a certain drop in the food and energy prices in international commodity markets, having thus caused spillovers on the domestic prices in Armenia through a number of imported goods. However, due to the influence of strong demand and inflation expectations in the Republic of Armenia, the prices in product groups that stand out with rigid prices continued to grow.

In view of the current situation, the Central Bank of Armenia further pursued a policy of tightening monetary conditions in the period under review and raised the policy rate by a total of 1.5 percentage points. As a result, although floating at a 10.3% level in the second quarter of 2022, the 12-month inflation then gradually subdued, owing to the contractionary monetary policy implementation, the dram appreciation, and weaker inflationary effects from the external sector, to reach 5.4% at the end of March of 2023. The 12-month inflation is estimated to further decrease in the near term and stabilize around the target value of 4% in the medium run.