

Status Report on Implementation of the Monetary Policy Program (Q3, 2022 - Q2, 2023)

2023-08-22

(2023/2) In the period between 3rd quarter of 2022 and 2nd quarter of 2023, the inflation environment in the Republic of Armenia has eased substantially. Thus, in the second half of 2022, despite following a certain decreasing path, the overall inflation further remained elevated, primarily driven by strong aggregate demand and inflation expectations created on the account of a large-scale influx of international visitors and financial resources to Armenia in the wake of the Russia-Ukraine conflict. The contractionary monetary policy pursued by central banks of the leading countries since the end of 2022 has brought about a notable decline 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. In the meantime, on the back of a large financial influx, the Armenian currency market saw the dram further appreciating in the period under review. Influenced by the aforementioned factors and the contractionary monetary policy implemented by the Central Bank of Armenia, both headline inflation and core inflation demonstrated rapidly decreasing patterns in the period under review. However, with strong demand and inflation expectations persisting in the Republic of Armenia, the inflation of service tariffs and some product prices is being adjusted relatively slowly.

In view of the situation at the time, the Central Bank of Armenia carried on implementing a policy to tighten monetary conditions in the first half of the period under review by raising the policy rate for a total of 1.5 percentage points. In the first half of 2023 to June, given the 12-month inflation decelerating significantly, on the one hand, and still high demand and inflation expectations, on the other, the Central Bank of Armenia left the policy rate unchanged. In June, with the inflation rates declining faster and taking into account that the risks of deanchoring inflation expectations might somehow phase out, the Central Bank of Armenia eased the monetary conditions by cutting the policy rate by 0.25 percentage points.

As a result, in the period under review the 12-month inflation has considerably subdued, reaching -0.5% in end-June of 2023.

