

Inflation report 2023/3 (Monetary Policy Program Q3, 2023, Status report on implementation of the Monetary Policy Program, Q2, 2023)

2023-09-26

EXECUTIVE SUMMARY

In the third quarter of 2023 the economic activity in the world and the main partner countries to Armenia remains sluggish, and the risks of weaker economic activity have substantially increased. With such developments in the global economy as well as the contractionary monetary policy implementation in place, the overall inflation environment in the world continued to soften significantly. Nonetheless, influenced by inflationary pressures from the labor market and driven by sustained high demand, the prices of goods and services that stand out with "sticky" prices still remain elevated. In such a situation, the central banks of the main partner countries to Armenia will further pursue a relatively contractionary monetary policy in the near future. As a result, the deflationary effects transmitted from the external sector to the Armenian economy will persist.

The growth rate of economic activity in Armenia somewhat slowed down during the quarter, but it is still at a high level thanks to strong growth registered mainly in the services and construction sectors. Despite some decline, aggregate demand also remains relatively high, which is supported by sustained high growth in both external and domestic demand. At the same time, inflation in the Republic of Armenia continued to subdue as a result of the deflationary effects spilling over to the Armenian economy from the global economy, the contractionary monetary policy implemented by the Central Bank of Armenia and the dram appreciation. Nevertheless, inflation of services and some goods is adjusting at a relatively slow pace.

On the whole, in the context of today's uncertainties, the Central Bank of Armenia builds and discusses various situation development scenarios, the one of which is presented in this monetary policy program, with the aim to managing possible risks arising from these uncertainties.

In the third quarter of 2023, as a low inflation environment persisted, the 12-month inflation was -0.2% as of end-August. According to the scenario presented by the Central Bank of Armenia, the 12-month inflation is expected to remain below the target in the near future. This will largely be determined by the deflationary effects to be transmitted from international markets and a certain decrease in inflation expectations, in spite of the

slower pace of adjusting inflation in a number of services and goods notwithstanding a relatively high demand. In such a situation, the Central Bank of Armenia considered that it would be appropriate to loosen monetary conditions with a relatively large step at this stage, while maintaining consistency in the ultimate regulation of inflation.

In view of the monetary policy implementation and expected macroeconomic developments, the 12-month inflation will gradually increase in the medium term and stabilize around the 4% target.

According to the scenario presented by the Central Bank of Armenia, high economic activity will persist in the near future, which will continue to be largely fostered by high growth which is expected in services and construction industries. Based on the abovementioned, the economic growth in 2023 is estimated to be 7.2%.

In the medium term horizon, the economic growth will slow down to some extent, due to a weaker growth in demand, and approach its longterm sustainable rate of 4.6% at the end of the policy implementation horizon

In the 3-year policy horizon of the presented scenario, the probability risks of inflation and economic growth deviating from the projection paths are mostly balanced. In the event these risks materialize in any direction, the Board of the Central Bank of Armenia will adequately respond to them and ensure the fulfilment of the price stability objective.

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[Graphs and tables Q3, 2023](#)