

Inflation report 2023/4 (Monetary Policy Program Q4, 2023, Status report on implementation of the Monetary Policy Program, Q3, 2023)

2023-12-26

EXECUTIVE SUMMARY

In the fourth quarter of 2023 the economic activity in the world and main trade partner countries to Armenia continues to slow down. The inflationary environment in the global economy is further easing as monetary policies remain contractionary. And yet, the 12-month inflation rates in main trade partner countries are persisting above their target, and the central banks of these countries will, subsequently, keep monetary conditions relatively contractionary in the near future. The estimation is that, as a result of the above developments, deflationary effects are expected to be transmitted to the Armenian economy from the external sector.

The economic activity in Armenia remains elevated in the fourth quarter, mainly thanks to reported high growth in the services and construction sectors. Aggregate demand also sustains at a high level largely on account of the domestic demand growth. The latter is supported by strong private consumption growth on account of spending of previously accumulated savings and continuous increase in incomes. In the meanwhile, the flow of international visitors and tourists slows down, leading to some weakening of external demand.

On the whole, in the context of current uncertainties related to how the events unfold in both the global and domestic economy, the Central Bank of Armenia builds and deliberates various situation development scenarios, with the aim to managing possible risks arising from these uncertainties; one of such scenarios is presented in this monetary policy program.

In an inflationary environment that persisted low over the fourth quarter of 2023, the 12-month inflation has been -0.5% as of the end of November. 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, reaching 0.1% at the end of 2023. This will largely be determined by the deflationary effects to be transmitted from international markets and a certain decrease in inflation expectations. In such a situation, the Central Bank of Armenia considered that it would be appropriate to further ease monetary conditions gradually at

this stage, while maintaining consistency in ultimately making inflation expectations steady.

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 Central Bank of Armenia scenario, high economic activity will persist in the upcoming period, which will largely be driven by strong growth expected in the services and construction sectors. Based on the abovementioned, the economic growth at the end of 2023 is estimated to be 8.3%.

In the medium term horizon, the economic growth will slow down to some extent due to a slower growth in demand and will approach its longterm sustainable rate of 4.5% 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 (see subsection 2.2.3). In

the event these risks materialize in either direction, the Board of the Central Bank of Armenia will adequately respond and ensure the fulfilment of the price stability objective.

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[Graphs and tables Q4, 2023](#)