

Status Report on Implementation of the Monetary Policy Program (Q1, 2023 - Q4, 2023)

2024-02-20

(2023/4) In the one-year period between 1st quarter of 2023 and 1st quarter of 2024, the inflationary environment in the Republic of Armenia has softened substantially. The 12-month inflation fell sharply in the first half of the year, forming around the level of zero since the second half. Such inflationary developments were attributable mainly to considerably weakened inflationary pressures transmitting from the external sector and even minor deflationary effects late in the year, as well as the monetary policy implemented by the Central Bank of Armenia.

Given the significant slowing in the 12-month inflation, on the one hand, and that the demand and inflationary expectations factors were still strong, on the other, in the first half of 2023, up until June, the Central Bank of Armenia left the policy rate unchanged. With inflation following a decline path as a result of external deflationary spillovers and labor market-derived inflationary pressures in the domestic economy somewhat neutralizing, the Central Bank of Armenia gradually eased monetary conditions, from June up to the yearend, lowering the policy rate by a total of 1.5 percentage points.

As a result of deflationary spillovers from the external sector and the contractionary monetary policy implemented by the Central Bank of Armenia, both headline and core inflation declined rapidly during the reporting period. Thus, in the period under review, the 12-month inflation decreased by about 9 percentage points to -0.6% in late 2023, and the 12-month core inflation slumped by around 10 percentage points to -0.4% at the end of the year. However, in the period under review, in the face of persisting high demand and inflationary expectations in Armenia, the prices of services and some products were adjusted at a relatively slow pace.