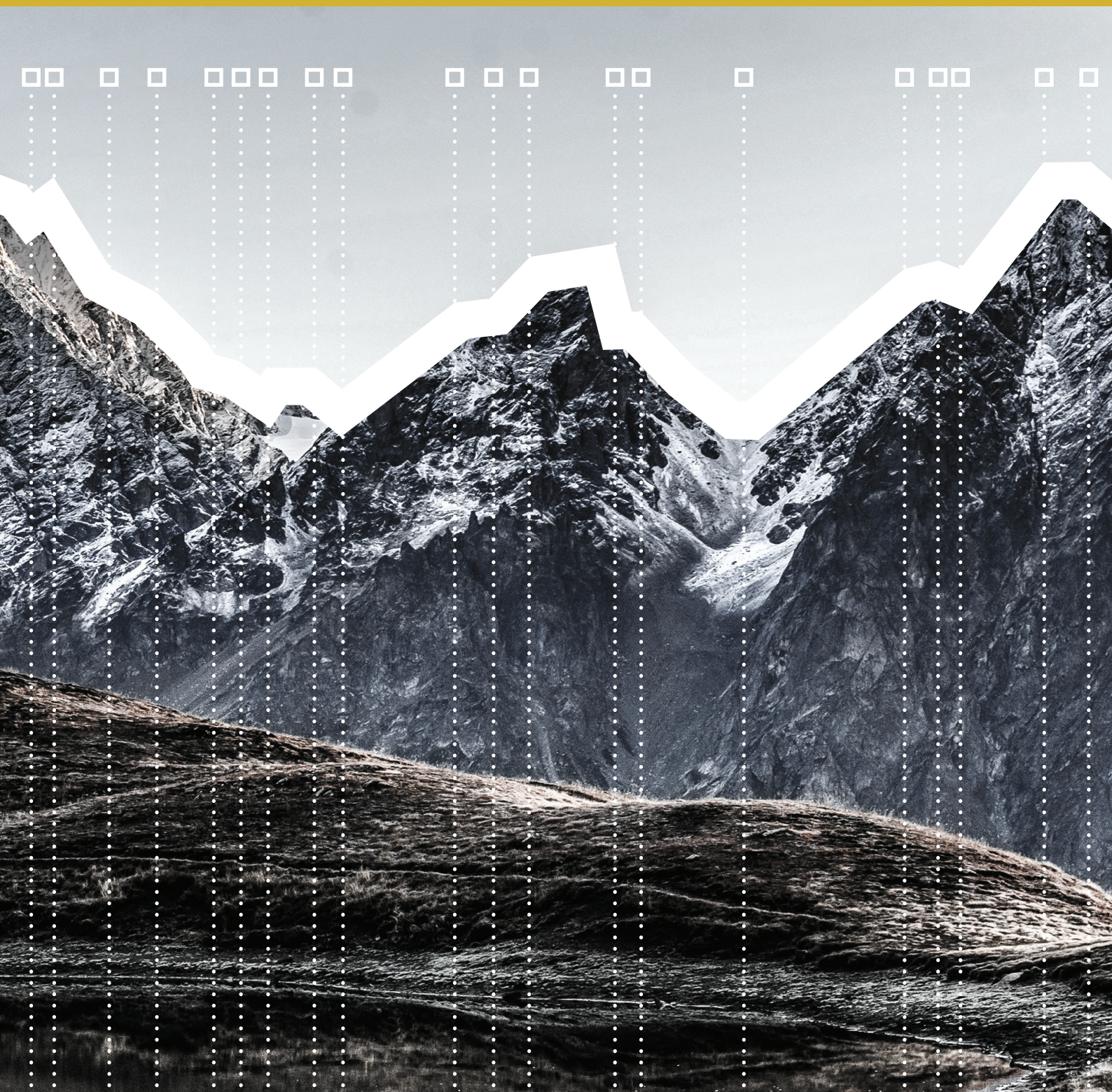




Central Bank of
The Republic of Armenia

Inflation Report

2023 / 4



*Approved
under the Central Bank Board
Resolution No. 226 A, dated 26.12.2023*

Inflation Report /4

*Monetary Policy Program,
Q4, 2023*



*Status Report on Implementation of the Monetary
Policy Program, Q3, 2023*

The inflation targeting strategy of the Central Bank of Armenia highlights the importance of communication of the Bank to the general public by publishing, inter alia, the “Inflation Report” on a quarterly basis.

The first section of the inflation report presents the Monetary Policy Program that includes the directions of the monetary policy in the mid-term forecast horizon as well as the scenario of inflation and other macroeconomic indicators under the directions. The latter is one possible scenario under consideration and is based on the Bank’s assessment of the current situation and future assumptions, which also include the impact of the Bank operations.

The second section of the report includes the Status Report on implementation of the monetary policy program for the previous one-year period, which presents the results of monetary policy implementation and covers the actual developments in the domestic economy.

Publishing of inflation scenario and the underlying assumptions, along with the inflation target, makes the monetary policy of the Bank more transparent, understandable and predictable, which aims to increase the public confidence in the Bank. The Bank believes that a clear and trusted monetary policy positively affects the anchoring of inflation expectations and maintaining financial stability in terms of cost reduction.

According to the rule of monetary policy, the policy is aimed at effectively minimizing the deviations between the 4% target and the inflation scenario. The path to inflation rate shaped as a result of projected policy directions is published as a probability distribution chart for the 12-quarter time horizon.

The scenario outlined in this report has been based on the actual information available by December 12, 2023, i.e. the day on which the refinancing rate was determined, the results of survey conducted by the Bank and the judgment made pursuant to the information on future developments of the macroeconomic environment.

All inflation reports which have been published to date are available on the Bank’s official website (www.cba.am) which also contains all press-releases and other monetary policy-related publications.

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1. 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 Armenia's 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.

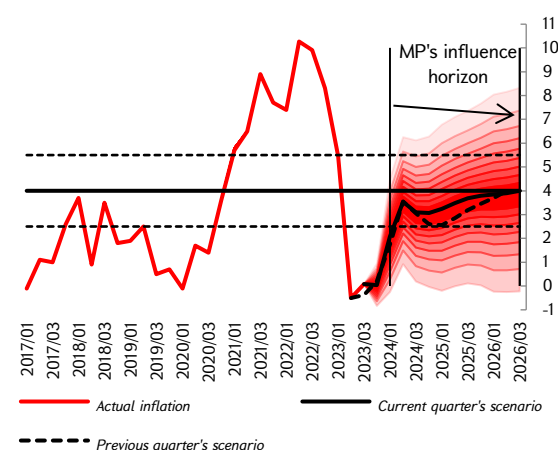
The economic activity in Armenia remains elevated in the fourth quarter, mainly thanks to reported high growth in the services and construction sectors. Aggregate demand also sustains at a high level largely on account of the domestic demand growth. The latter is supported by strong private consumption 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.

Chart 1
Inflation (12-month) scenario probability distribution
for a 3-year policy horizon



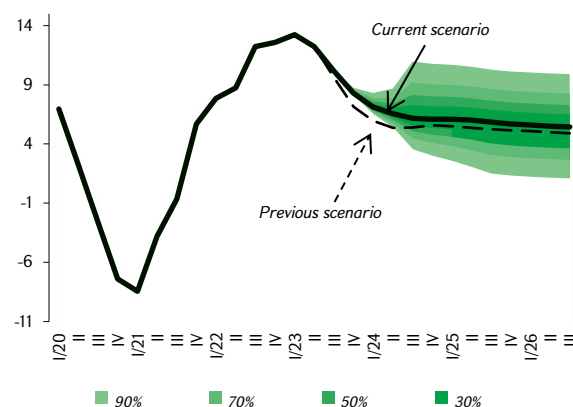
Source: Armenia Statistics Committee, Central
Bank of Armenia scenario

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 long-term sustainable rate of 4.5% at the end of the policy implementation horizon (Chart 2).

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.

Chart 2
Real GDP growth (cumulative)¹ scenario probability distribution for a 3-year policy horizon



Source: Armenia Statistics Committee, Central Bank of Armenia scenario

¹ Each quarter's growth rate is calculated as the cumulative growth rate of the last four quarters.

2. SCENARIO PRESENTED, SCENARIO CHANGES AND RISKS

2.1. External environment developments

The global economy saw stronger economic activity in the third quarter of 2023 compared to the previous scenario, largely on account of higher-than-expected economic growth in the USA, while the 12-month inflation decelerated under the influence of continued decline in food and energy prices. Nevertheless, inflationary pressures caused by “overheated” labor markets in the main trade partner countries to Armenia persist, helping the prices of services and goods known for their “sticky” prices linger at high levels. It is estimated that the central banks in partner countries will carry on implementing a contractionary monetary policy and will only gradually ease monetary conditions over the medium run, which will be reflected in weakening global demand and further price adjustments in commodity markets.

Economic developments in the United States: According to the U.S. Bureau of Economic Analysis estimate, in the third quarter of 2023 the US economy posted a 3% y/y growth, which is above the estimate outlined in the previous MP program of the Central Bank of Armenia. Economic growth was largely driven by increased private consumption, private investment (especially the change in inventories), and government spending on defense. The contribution of net exports to the economic growth was slightly negative, reflecting a weaker demand in the US’s largest trade partners – the EU, China. However, there was some growth in exports and imports registered during the reporting quarter.

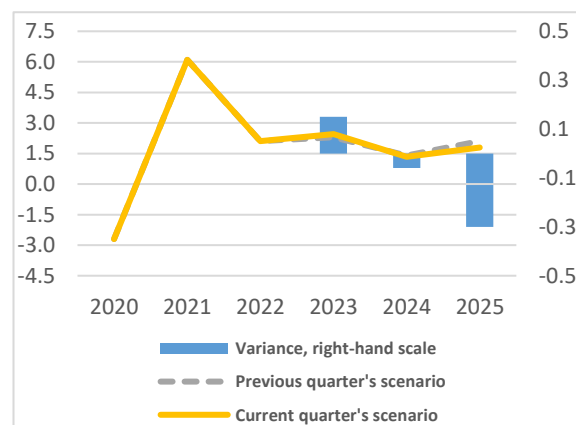
It should be noted that the decline in the saving rate in recent months (which has mostly been below 5% since January 2022) along with the substantial increases in retail trade and private spending point to a short-term acceleration in private demand and economic growth in the USA. In this context, according to the current estimates of the Central Bank of Armenia, **the US economy will register a higher growth (2.45%) in 2023 compared to the previous program**, whereas in the medium term, as commercial banks continue tightening up the lending and financial conditions, the economic growth will slow down to settle below long-term sustainable levels.

The inflationary environment in the United States continued to weaken over the third quarter of 2023, yet high inflation persisted in the product groups standing out with “sticky” prices.

The global economy saw stronger economic activity in the third quarter of 2023 compared to the previous scenario, while the 12-month inflation decelerated under the influence of continued decline in food and energy prices.

The central banks in trade partner countries to Armenia will carry on implementing a contractionary monetary policy and will only gradually ease monetary conditions over the mid-term horizon, which will be reflected in weakening global demand and further price adjustments in commodity markets.

Chart 3
The USA economic growth scenario (%)



Source: Bureau of Economic Analysis (BEA),
Central Bank of Armenia scenario

According to the estimates of the Bureau of Economic Analysis of the US Department of Commerce, in the third quarter of 2023 the personal consumption expenditure price index kept on decelerating to 3.4% year-on-year relative to the previous quarter's indicator of 3.86%. The decelerating inflation, however, continues to be largely driven by low inflation in the product groups with the most flexible prices. Although these product groups have posted y/y deflation in May-July 2023, in the period from August to November it fluctuated around a zero mark. In product groups with "sticky" prices, especially the services, inflation continues to adjust slowly, staying considerably higher from the target levels. It should also be noted that high rates of inflation in apartment rentals continue to be recorded. Thus, in the third quarter of 2023 the housing rents in the US amounted to roughly 7.4% y/y; during the quarter these rose by nearly 1.3% (with an annualized figure of about 5.1%).

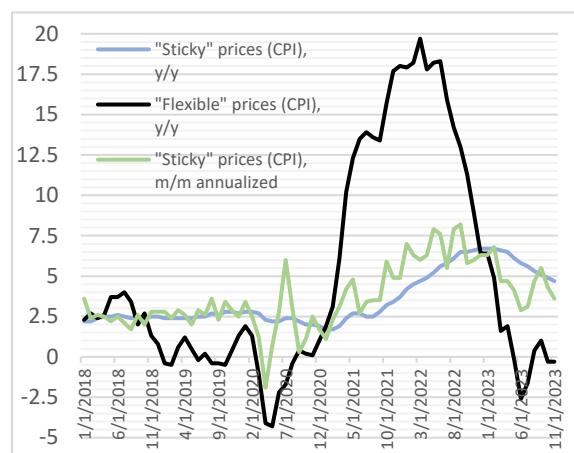
All of the abovementioned points to still strong demand and inflation expectations in the United States.

The labor market in the United States remains "overheated" despite some easing. In the third quarter and over the first two months of the fourth quarter of 2023, the unemployment rate persisted 0.1–0.2-percentage point above the pre-pandemic level (3.7%), while the figure of job vacancies again outnumbered that of the jobless by nearly 1.34 times. This figure has steadily declined from the heights of 1.8–2 reached last year which indicates that the labor market is normalizing, pointing to a more balanced demand and supply conditions. Although August and October saw some increase in the unemployment rate, note that this reflects the increase in the labor force participation rate in the United States. Under these circumstances, the current pace of wage growth (5.2% as estimated by the Federal Reserve Bank of Atlanta) is expected to somewhat reduce in the near term as a result of some weakening in demand and increase in labor supply, but still remains at high levels.

In the outcome, according to the scenario of the Central Bank of Armenia, the US Federal Reserve will keep the policy rates unchanged in the near future and will further pursue a contractionary monetary policy, ensuring adjustment demand conditions and the return of inflation to the target level at the end of the horizon.

Economic developments in the Eurozone: According to the Eurostat estimates, in the third quarter of 2023 the Eurozone's economic growth was 0.1% y/y (relative to the previous quarter: -0.1%), which is below the scenario estimate of the previous MP program of the Central Bank of Armenia. Sluggish economic growth in the Eurozone is further

Chart 4
Inflation in product groups with "flexible" and "sticky" prices in the USA



Source: Bureau of Labor Statistics (BLS),
Federal Reserve Bank of Atlanta

associated with the problems persisting in some of the EU's main industrial countries – Germany, Italy, Austria, and elsewhere. Note that the industrial output (in energy-intensive industries, in particular) keeps on contracting; it shaped at rather low levels compared to February 2022. Fast-growing indicators of economic activity in the Eurozone point to a widespread economic slowdown driven mainly by contraction of industry and still incurring the consequences of the energy crisis. The monthly indicators too portend a considerable slowing due to a decline in the production of both durable and non-durable consumer goods. Overall, in September 2023, relative to September 2022, the Eurozone's industrial production has shrunk by around 7% year-on-year.

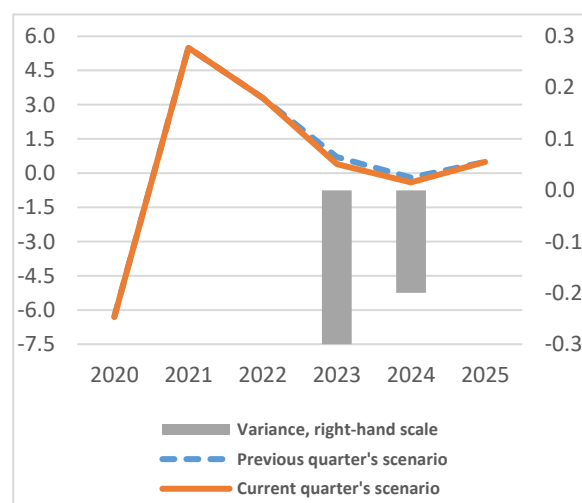
The economic growth in the Eurozone in the third quarter of 2023 was positively supported by public spending, private investment, which was almost completely offset by the negative impact of reduced export volumes and the change in inventories. **The decline in export volumes reflects both the slowing in economic growth (especially a sizable reduction in the construction sector) in China as one of the EU's main trade partner countries, and a certain weakening of the EU economy's capacities and structural transformations because of the harsh sanctions imposed by the EU since the beginning of the Russia-Ukraine conflict.** The impact of household final consumption on the GDP growth has almost been zero, despite some positive trends.

Given that the monetary conditions continue to be tighter, as well as the impact of strict restrictions applied to Russia, **the Eurozone economic growth in the short and medium term is expected to stand below the previous estimate.**

In the EU too, the labor market continues operating under “overheated” conditions. The unemployment rate remains low, 6.5% in October 2023, with a historically high labor force participation rate of roughly 75%. This is largely driven by a massive involvement of aged workers, women and those with higher education in the labor market. Interestingly, over the first and second months of the third quarter, wage growth has remained historically high, around 5%. Companies continue to cite labor shortages as the main constraint on production. These conditions are expected to persist, causing inflationary pressures in some sectors of the economy and, particularly, in services.

In the Eurozone, the 12-month inflation rate keeps on decelerating, whereas core inflation remains almost the same – well above the target. Thus, in the third quarter of 2023 the Eurozone posted a 4.9% y/y inflation compared to that of 6.2% in the previous quarter. The oil and gas prices as well as food product prices which came in lower against the same period last year continued to largely contribute

Chart 5
The EU economic growth scenario (%)



Source: Eurostat, Central Bank of Armenia scenario

to the decelerating inflation. The inflation rate kept on slowing during the third quarter of 2023 (although at a weaker pace) but is still above the European Central Bank's target: it amounted to 2.9% y/y in October and 2.4% in November. It is noteworthy that -0.5% monthly deflation was recorded in November, mainly due to decreased energy prices and service tariffs.

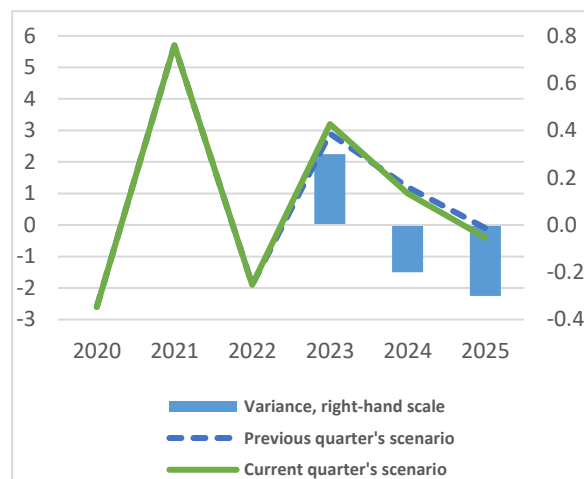
In the third quarter, as opposed to the headline inflation, the core inflation, including especially **the annual inflation of services, is still considerably above the target (5.1% y/y), despite a certain slowdown compared to the previous quarter. However, the estimates of headline inflation for October and November were 4.2% y/y and 3.6% y/y, respectively, which is in line with downward trends in headline inflation, but at a markedly slower pace.** Thus, in view of the aforementioned developments, the anticipation is that the ECB will begin to gradually loosen tight monetary conditions to help the inflation return to the target at the end of the policy horizon.

Economic developments in Russia: According to the estimates of the State Statistical Service of Russia, in the third quarter of 2023 the Russian economy grew by 5.5% y/y, which is notably a more positive result compared to the estimates in the previous MP program of the Central Bank of Armenia. The economic growth in Russia is driven by a low level of gross output recorded in the same period last year, on the one hand, and to rather high economic activity observable in wholesale and retail trade and services, manufacturing, and construction sectors, on the other.

It should be noted that high economic growth primarily incurs the influence of demand factors: the domestic demand in Russia has accelerated significantly on the back of high indicators of both private and public spending, reflected in the rapid decrease of the trade balance surplus. In the course of recent months, lending volumes have also increased substantially. The steeply rebounding domestic demand also reflects the acceleration of inflation expectations that derive from the ruble's exchange rate depreciation.

According to the Central Bank of Armenia scenario, the economic developments in Russia in 2023 will be more positive compared to the previous MP program: about 3.2% of economic growth will be recorded during the year, which will be driven by a more stimulative fiscal policy, short-term acceleration in private demand. The assumption is that the Russia's state budget will perform in deficit this year and in the med-term perspective, which will create additional inflationary pressures.

Chart 6
The Russia economic growth scenario (%)



Source: Rosstat, Central Bank of Armenia scenario

With demand recovering much faster than expected, the current account and, particularly, the trade balance surplus is rapidly reducing. Note that although risen international oil prices have prompted a sizable increase in the selling price of Russian oil, standing much above the established price ceiling, it is largely being offset through the “voluntary” reduction of oil production volumes by Russia (under the agreement with OPEC+ countries). **In turn, the reducing current account surplus brings about the ruble’s nominal exchange rate depreciation and adds to the inflation and inflation expectations.** Thus, over the first half of 2023 the 12-month inflation in Russia slumped to 2.3% in April, but it accelerated sharply starting from May and, especially, at the end of the third quarter. It is worth mentioning that inflation of 0.96% (with the annualized figure of roughly 12%) was recorded in September 2023, in which case the 12-month inflation outstripped the target, reaching 6% and as much as 6.7% in October. Core inflation and service inflation, too, remain elevated, although the services sector saw some slowing in the third quarter. Moreover, the “heating” of the labor market, the increase in real wages especially in the industrial sector, exert additional inflationary pressures, leading to the need for tightening up monetary conditions.

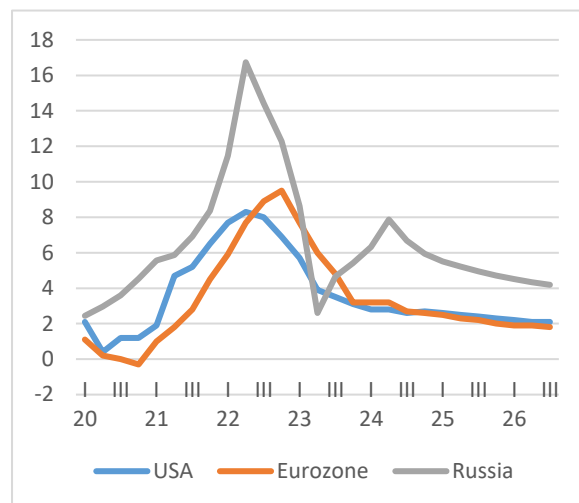
In an effort to contain the acceleration of inflation and inflation expectations as a result of sharply depreciated nominal exchange rate amid increasing domestic demand and budget expenditures, the Central Bank of Russia raised the policy rate by 1.0 percentage point, following its regular decision in September, then by another 2 percentage points in November, setting it at 15%. Although this measure is expected to infuse some stability in the ruble’s exchange rate, contain the excess demand and help to steer inflation towards its target in the medium term, the inflation expectations are, nevertheless, high.

Therefore, according to the current estimates of the Central Bank of Armenia, to neutralize risks to accelerated inflation and inflation expectations, the Central Bank of Russia will aim to tighten monetary conditions to a certain extent in the short term, while ensuring that the inflation approaches to the target at the end of the policy horizon.

Developments in commodity and food product markets:

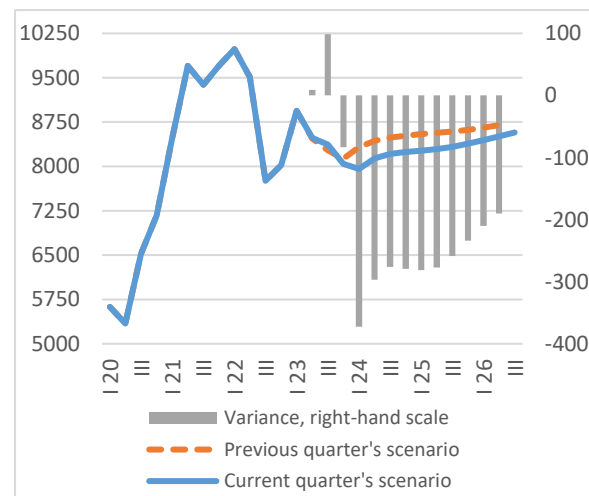
As global financial conditions tighten up, almost all international commodity markets saw prices further decrease in the course of the third quarter of 2023. Some acceleration of demand in the United States in the short term is offset by weakening of demand in China and, especially, a decline in investment in the construction sector as well as reduced demand due to low economic activity in the Eurozone. As global demand slackens while supply

Chart 7
Inflation in partner countries (%)



Source: Bureau of Labor Statistics (BLS), Eurostat, Rosstat, Central Bank of Armenia scenario

Chart 8
International copper price scenario



Source: World Bank, Central Bank of Armenia scenario

chains/restrictions step into full recovery amid tightening financial conditions, the real commodity and food product prices are expected to further adjust. As a result, low-price spillover effects from commodity markets to the Armenian economy will continue.

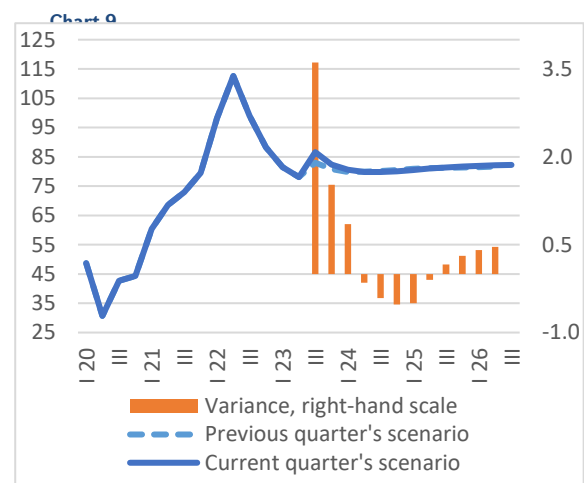
In the international copper market in the third quarter of 2023, prices kept on falling to USD 8000 per ton. This is attributable to further tightening of monetary conditions in the world and continued contraction of demand in China, especially in terms of reduced investments in the construction sector.

Compared to the previous Central Bank of Armenia scenario, copper prices will settle at lower levels amid a sluggish demand, as developed countries carry out contractionary monetary policies and global financial conditions tighten up. After some short term adjustment, international copper prices are expected to start growing at a steady pace in the medium term, nearing the level of USD 8800 per ton at the end of the horizon, mainly expressing the mid-term prospects for the transition to green economies.

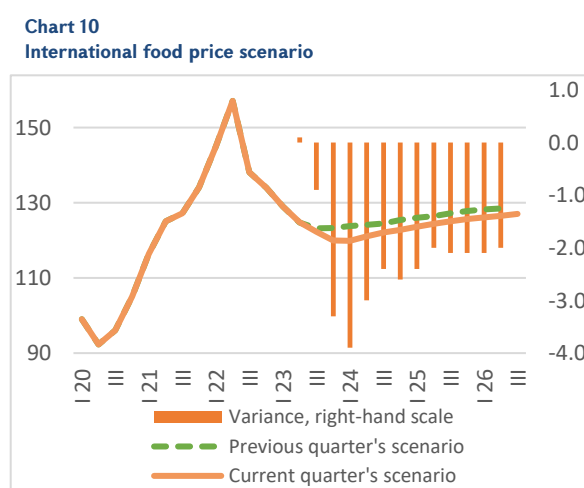
In the course of 2023, in an environment of global demand slowdown under tight financial conditions, international oil prices continued decreasing to some extent from the previous year's high levels. However, a somewhat slower-than-expected slowdown in global economic activity during the third quarter of 2023, coupled with the extended "voluntary" production cut agreement by OPEC+ member countries, created inflationary pressures, pushing oil prices slightly up to shape around USD 87 per barrel. The extent of voluntary cuts somewhat increased during the fourth quarter.

In view of the aforementioned developments, as well as the growth of geopolitical tensions involving oil-producing countries, some increase in volatility in the oil market is expected in the short term. However, as demand weakens amid tightening global financial conditions, while additional supply constraints phase out, the oil prices will adjust to some extent and stabilize at lower levels.

In food product markets in the third quarter of 2023, driven by mainly optimistic expectations for the volume of supply on the one hand, and further tightening of financial conditions around the globe, on the other, the prices of food product groups (except for sugar) continued falling to settle at the levels somewhat below the previous estimates by the Central Bank of Armenia. The price decreases in almost all product groups continued during the third quarter. Thus, **according to the third quarter 2023 results, the international food price index (FAO) has dropped by about 11.0% in comparison with the respective period last year.**



Source: World Bank, Central Bank of Armenia scenario



Source: FAO, Central Bank of Armenia scenario

As weakening of global demand continues while conditions of supply in some product groups remain favorable, the prices in food product markets will still be decreasing in the short term; in the medium term the prices will be shaping at levels lower than estimated previously, according to the scenario presented by the Central Bank of Armenia.

2.2. Domestic economy scenario

2.2.1. Inflation and monetary policy

In the fourth quarter of 2023, the economic activity slowdown in the world and main trade partner countries to the Republic of Armenia continues. This is reflected in weaker global inflation rates and lower prices in international commodity markets. In such a situation, the central banks in partner countries will keep monetary conditions relatively contractionary in the near future. As a result, deflationary effects are anticipated to be transmitted to the Armenian economy from the external sector.

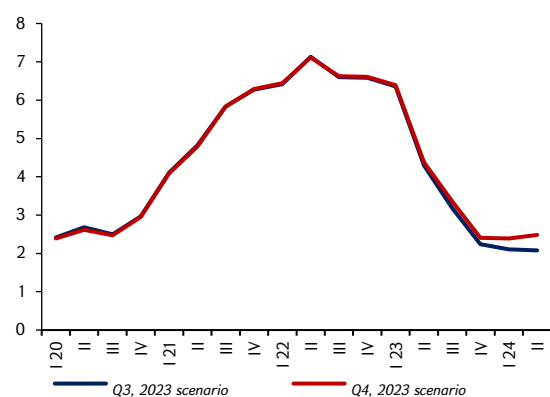
The country risk-premium of the Republic of Armenia has increased to a certain extent due to regional geopolitical developments. However, with Armenia's high economic growth, a capital and labor inflow, the country's risk premium is still slightly below the long-term level driven by fundamental factors.

In Armenia, the economic activity remains elevated, which is supported by high growth in construction and services sectors. External demand is slowing down, while domestic demand continues to be strong. In particular, a 6.0% increase in economic activity was recorded in October of 2023. Substantially accelerated retail sales in October is noteworthy as well.

In late 2023, demand in the economy is persisting high primarily owing to the accelerated domestic demand. The increase in domestic demand is bolstered by continued high growth rates in consumer credit on the one hand, and some decrease in previously accumulated savings, on the other. As a result, the demand gap is estimated to be slightly positive. It is reckoned, however, that the positive gap will close in the near future under the influence of still contractionary monetary conditions.

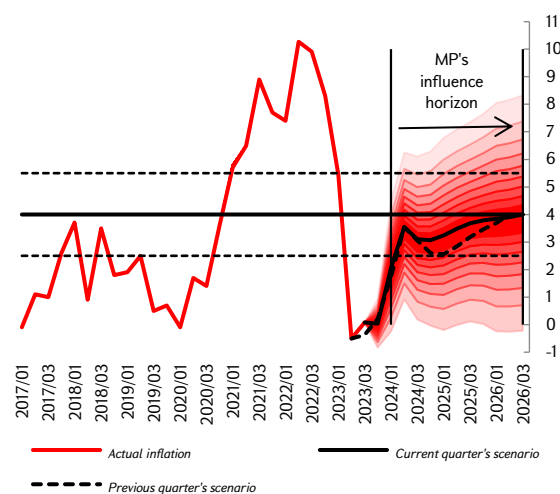
The labor market continues to remain “hot”, but the increase in labor supply (see Table in subsection “Main judgements and risks”) and relatively facilitated international labor mobility will further alleviate

Chart 11
Short-term inflation expectation estimates (%)



Source: Central Bank of Armenia estimate

Chart 12
Inflation (12-month) scenario probability distribution for a 3-year policy horizon



Source: Armenia Statistics Committee, Central Bank of Armenia scenario

inflationary pressures coming from Armenia's labor market in the near future.

With minor deflationary effects from the external sector and contractionary monetary policy in place, the inflationary environment remains low, which is also reflected by some decline in wage growth and inflation expectations in the labor market (see Box 1).

In this situation, the Board of the Central Bank of Armenia decided to reduce the policy rate by 0.25 percentage point to 9.25%.

The Board of the Central Bank of Armenia decided to cut the policy rate by 0.25 percentage point.

Note that the monetary stance remains contractionary, which ensures the required consistency in handling demand and making inflation expectations steadier. As outlined in the monetary policy scenario, the 12-month inflation will be staying below the target, amounting to 0.1% at the end of 2023. In the mid-term perspective it will gradually increase and stabilize around the 4% target. At the same time, the probability risks to inflation deviating from the projection path are estimated primarily balanced.

The 12-month inflation will staying below the target in the near future, amounting to 0.1% at the end of 2023.

Table 1:

	Inflation probability distribution interval				
	<1.0%	1.0-2.5%	2.5-5.5%	5.5-7.0%	>7.0%
Q4, 2023	95.24%	4.76%	0.00%	0.00%	0.00%
Q1, 2024	73.97%	21.29%	4.72%	0.01%	0.02%
Q2, 2024	24.45%	34.91%	38.71%	1.79%	0.15%
Q3, 2024	7.43%	19.92%	58.17%	11.48%	3.00%
Q4, 2024	13.10%	23.83%	51.95%	8.80%	2.32%
Q1, 2025	15.85%	22.82%	48.20%	9.69%	3.45%
Q2, 2025	14.42%	21.45%	48.77%	10.97%	4.38%
Q3, 2025	12.37%	19.57%	49.40%	12.78%	5.88%
Q4, 2025	11.92%	17.98%	47.85%	14.24%	8.02%
Q1, 2026	12.93%	16.88%	44.71%	14.90%	10.57%
Q2, 2026	12.81%	16.48%	44.15%	15.19%	11.37%
Q3, 2026	12.77%	16.14%	43.57%	15.40%	12.11%

2.2.2. Economic activity

Armenia's economic growth estimate for 2023 has been revised slightly upside relative to the previous Central Bank of Armenia scenario and is estimated at around 8.3%; this will continue to be strongly supported by high growth in the services and construction sectors. The services sector will further serve as the main driver to economic growth, mainly thanks to accelerating domestic demand. The latter is reflected

Armenia's economic growth estimate for 2023 has been revised slightly upside relative to the previous Central Bank of Armenia scenario. The 2023 economic growth will be 8.3% relative to the previous estimate of 7.2%.

also in the sizably grown retail trade this quarter. Services will continue to benefit from positive developments in the information and communication industry, which is driven by the influx of more productive labor force there. The growth of the labor force in the medium term will positively contribute to maintaining a higher level of potential GDP.

Strong growth in the construction sector will persist in the medium term mostly owing to sustained high rates in housing construction. Moreover, planned construction activities in connection with the operation of the Amulsar mine will positively contribute to the construction sector.

Minor positive developments in the agricultural sector will carry on up until the end-year and will not significantly contribute to economic growth.

The industry growth has been revised somewhat downside relative to the previous MP program due to a certain decline in the manufacturing industry. The latter is caused mainly by some change in the structure of domestic demand in favor of an increased use of services, while the export of manufactured goods remains at a high level.

Over the mid-term policy horizon, the economic growth will be higher relative to the previous scenario thanks to the recent increase in labor supply (see Table 3). Along with the increase in labor supply, high investment activity is also expected. As a result, over the forecast horizon the economic growth will still be above its long-term sustainable level of 4.5% (Chart 13).

Chart 13

Real GDP growth (cumulative)¹ scenario probability distribution for a 3-year policy horizon

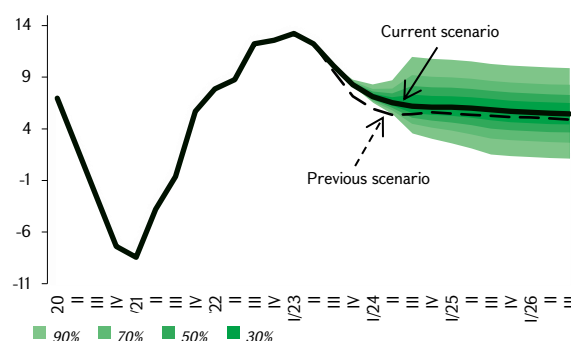
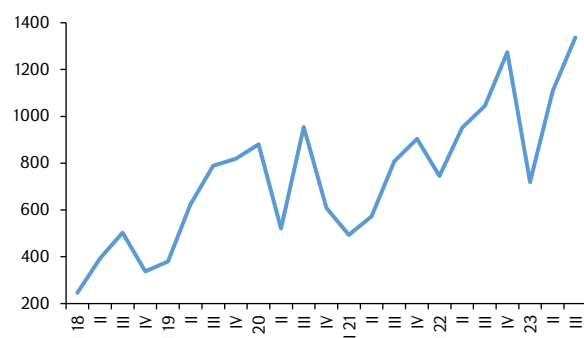


Chart 14

Construction permits



Source: Armenia Statistics Committee,
Central Bank of Armenia scenario

Table 2:

Real GDP growth (cumulative) scenario probability distribution		
Period	30% probability distribution	90% probability distribution
January - December 2023 / January - December 2022	8.2 - 8.4	8.0 - 8.8
January - December 2024 / January - December 2023	5.3 - 7.2	2.9 - 10.8
January - December 2025 / January - December 2024	4.7 - 6.7	1.3 - 10.1
January - September 2026 / January - September 2025	4.4 - 6.5	1.0 - 9.9

Domestic demand: Along with the gradually adjusting influx of international visitors and high external demand observable since 2022, the **domestic demand has been accelerating in the course of 2023, supported by vigorous private spending as a result of increased**

private incomes. Recently, the household demand for consumer loans has also increased significantly.

The private investment is expected to post high growth this year, as evidenced by an increased number of construction permits and more imports of investment goods. It is noteworthy that enterprises hold sizable amounts of accumulated savings, which may facilitate the acceleration of investment in the future. In the short term, the increase in investment activity will contribute to the growth of domestic demand, and in the medium term it will foster the increase in potential GDP and production capacities.

External demand: In the course of 2023, as strong domestic demand persists, the current account deficit will broaden.

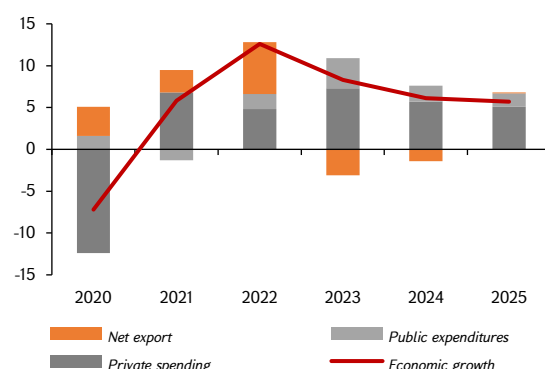
During 2023 the current account deficit-to-GDP ratio will increase against the previous year to reach 3.1%. The growth rates of export of goods and services adjust to a certain extent after the previous year's high growth. In the meantime, the strong growth of export of IT services continues. As to tourism developments, the influx of tourists and their spending adjust from high levels reported in the previous year.

The real growth rates in import of goods and services also adjust from high levels as reported in the previous year, however they remain at a high level. With permanent income perception shaped during the previous year, the recovery of consumption exceeds expectations, reflected by higher growth rates of imports compared to exports. As a result, the real growth of export and import of goods and services in 2023 will be 22% and 30%, respectively, according to the current scenario.

The decrease in remittances of individuals in 2023 in comparison with the previous scenario will be bigger due to the slowdown of economic activity in trade partner countries (and taking into account the impact of steep depreciation of the Russian ruble, which started in July, on the remittances in US dollar terms). At the same time, it should be noted, the wage gap in construction sectors in Armenia and Russia has reduced considerably, and this creates risks of a possible slowdown in seasonal migration, which is also reflected in the dynamics of remittances.

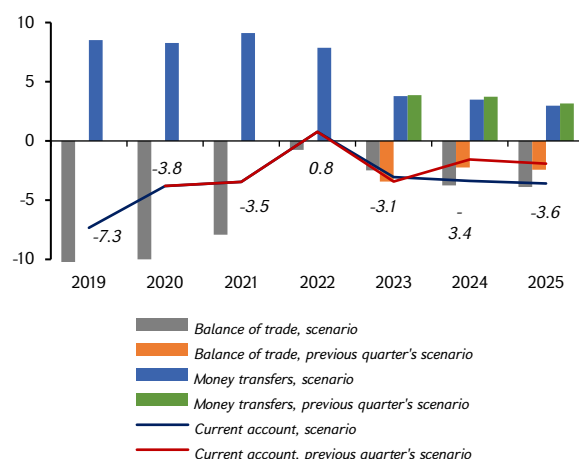
In the mid-term perspective, under the scenario that envisions a gradually adjusting high external demand and recovering domestic demand, the current account deficit-to-GDP ratio will increase gradually to approach the estimated equilibrium of 4.0-6.0%.

Chart 15
Demand components contributing to the growth
(percentage point)



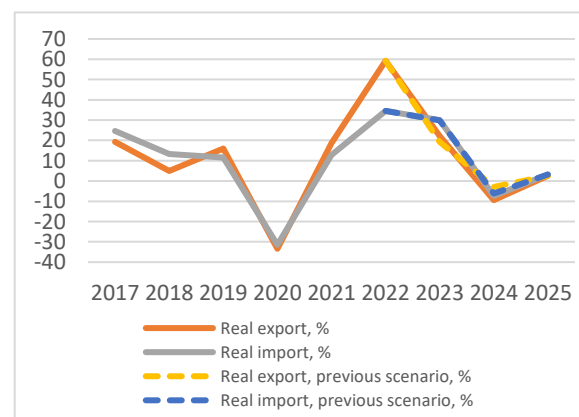
Source: Armenia Statistics Committee,
Central Bank of Armenia scenario

Chart 16
Current account/GDP ratio medium-term scenario (%)



Source: Armenia Statistics Committee,
Central Bank of Armenia scenario

Chart 17
Change in real export and import of goods and services
in the medium term (%)



Source: Armenia Statistics Committee,
Central Bank of Armenia scenario

Fiscal policy²: In an environment of high economic growth for 2023, the impact of fiscal policy on aggregate demand is assessed as somewhat contractionary. The State Budget is expected to report some underperformed spending, mainly in terms of capital expenditures, against the 2023 budget plan. This, subsequently, will generate a smaller deficit of the budget relative to the projection.

As the Central Bank of Armenia estimate shows, the tax-to-GDP ratio³ in 2023 will amount to 23.2%, pointing to a faster growth of taxes relative to the GDP.

In 2023, as the domestic economic activity remains vibrant, tax collection goes in line with the projection. According to the yearly results, the tax revenues will amount to roughly AMD 2225 billion, which does not differ much from previous estimates of the Central Bank of Armenia program.

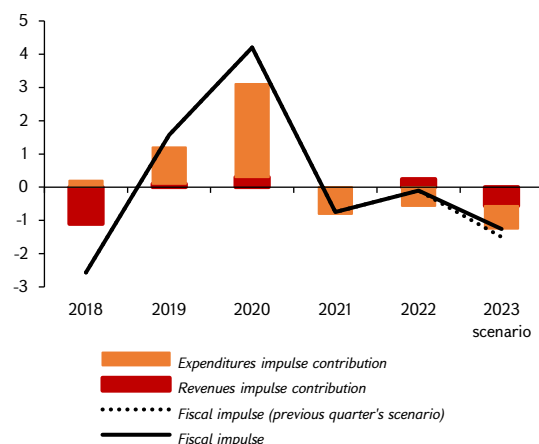
The state budget expenditures in January-November 2023 were underperformed relative to the projection mainly due to capital expenditures. Nonetheless, the anticipation is that the expenditures plan will improve at the end of the year, securing as much as 97% performance for the year.

In 2023 the state budget's expenditures will amount to nearly AMD 2522 billion. According to the Central Bank of Armenia estimate, in 2023 the expenditure-to-GDP ratio will reach 26.3%, representing a mere 0.1 percentage point decrease against the previous year's figure. In the outcome, the deficit-to-GDP ratio will be 1.6%, dropping slightly compared to the respective ratio in 2022.

Thus, with state budget expenditures and revenues adjusted from the flows that have no impact on aggregate demand, the fiscal policy is estimated to have about 1.3 percentage point contractionary effect in 2023 relative to 2022, and will be determined by contractionary impulses of both expenditures and revenues.

Taking the Budget 2024 and Mid-Term Expenditures Framework 2024-2026 as a basis, the fiscal policy's impact on aggregate demand in the medium run is estimated to be neutral. This will depend on the expected increase in both current and capital expenditures over that period, as well as a gradual increase in the tax-to-GDP ratio, following the improvement in the tax policy.

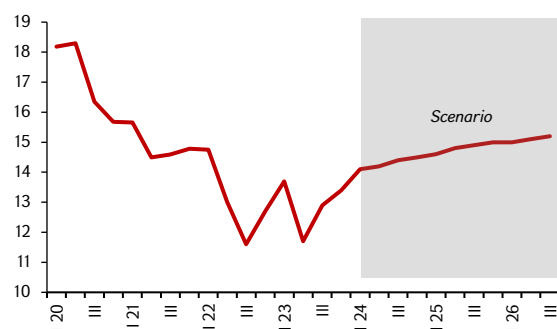
Chart 18
Fiscal impulse scenario (percentage point)



Source: Central Bank of Armenia scenario

In 2023, relative to 2022, the fiscal policy is estimated to have about 1.3 percentage point contractionary effect.

Chart 19
Unemployment rate (%)



Source: Armenia Statistics Committee,
Central Bank of Armenia scenario

² The fiscal policy's impact on the 2023 aggregate demand was estimated taking into account the RA Law on the Budget 2023, the "Mid-Term Expenditures Framework, 2024-2026" estimates, the current plan (quarterly and annual plans as adjusted by respective Government decrees available at the time), current developments and the Central Bank of Armenia estimations based thereon.

³ The GDP indicators used in the program are the Central Bank of Armenia estimations.

Labor market: In 2023 the unemployment rate will be below its long-term sustainable level, staying around 13%, reflecting the positive GDP gap generated during the year. At the same time, the increase in labor supply (see Table 3) will reduce the inflationary pressures derived from the labor market, pointing, among others, to a certain slowing in private wage growth. In the medium term, as measures to handle demand continue, the unemployment rate will stabilize around its long-term sustainable level of 15%.

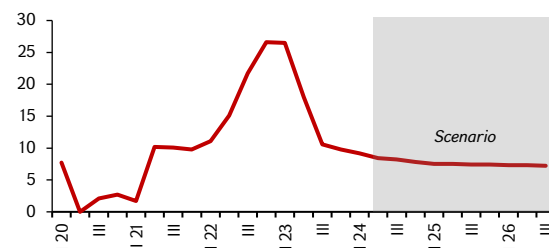
Private wage growth will decelerate to a certain extent in 2023, following the adjustment of high demand and somewhat mitigated inflation expectations, to around 16% for the year. In the medium term, the growth of private wages will gradually slow down to 7-8% at the end of the horizon, driven by developments in economic growth and inflation that serve as its fundamentals.

Thus, according to the scenario presented, the inflationary pressures deriving from the labor market will somewhat weaken in the near future. In this event, unit labor costs will be around 10% during the year, but are expected to stabilize around 4% in the mid-term perspective.

2.2.3. Main judgements and risks

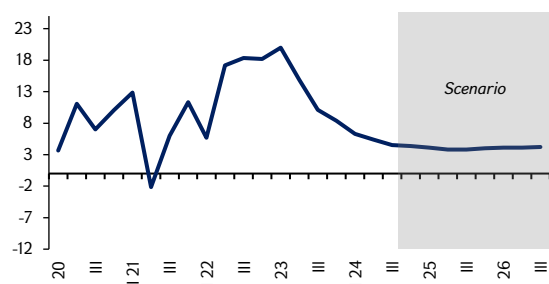
This section contains the main judgements and scenario risks that underlie the Monetary Policy Program for the fourth quarter of 2023.

Chart 20
Private nominal wage growth y/y (%)



Source: Armenia Statistics Committee,
Central Bank of Armenia scenario

Chart 21
Unit labor costs growth y/y (%)



Source: Armenia Statistics Committee,
Central Bank of Armenia scenario

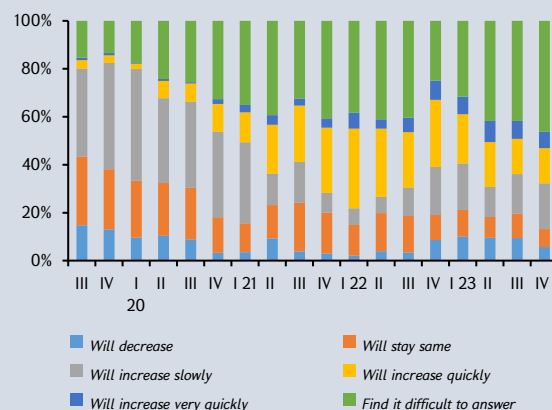
Box 1

The results of survey on the inflation expectations by the households and the financial system

The results of the Central Bank of Armenia surveys conducted to figure out the households' and financial system participants' expectations for a bunch of macroeconomic indicators for the fourth quarter of 2023 show that the share of those expecting low inflation and those expecting high inflation has shrunk. At the same time, the survey's results denote that uncertainty about inflation has grown to some extent.

Interestingly, although the inflation expectations of households have been somewhat decreasing recently, they are still relatively high.

Chart 22
Surveys on households' inflation expectations



Source: Central Bank of Armenia

Judgments of the scenario presented

Table 3:

Basic judgments and assumptions	Possible developments, if the mentioned assumption proves correct
The sanctions imposed on Russia will carry on over the entire policy horizon. Tightening of lending conditions in the US banking system will continue. However, the reported bankruptcies of some banks in the US financial sector will not be systemic in nature, including as a result of adequate policy measures. The fiscal policy in Russia will be deficit-driven over the entire horizon. The OPEC+ alliance's agreement since April of 2023 to curtail oil production, which was extended to 2.2 mln/b per day in November of 2023, will be effectively adhered to up until end-2024. As global demand continues slowing and supply chains go full recovery in a time when economic policies tighten up, the real commodity and food product prices will further be adjusted downside, shaping around the fundamentals-driven levels in the medium run.	✓ The economic growth in the USA and the Eurozone - principal trade partners to the Republic of Armenia - will continue to weaken, shaping at a lower level in the medium term. The economic recovery in Russia will proceed at a faster pace in the short term but will slow down in the medium term, mainly due to tightening up economic policies. ✓ The tightening of terms of lending by the US banking system will have some negative impact on the real sector in the medium term. ✓ Downside price adjustments in commodity and food product markets will carry on. ✓ International oil prices in a supply-constrained environment will remain at relatively high levels, with certain inflationary spillover effects in trade partner countries. ✓ Inflation in the US and the EU will continue to be influenced by falling prices of commodities (excluding those of energy), but inflation on goods with relatively "sticky" prices will be adjusting slowly. ✓ Central banks of the main trade partner countries to the Republic of Armenia will maintain a contractionary policy stance for a relatively long period of time. In these countries, inflation will gradually return to its target only at the end of the policy horizon.
The fiscal policy in 2023 is expected to have contractionary effect in terms of both expenditures and revenues.	✓ The fiscal policy in 2023 is estimated to have about 1.3 percentage point contractionary effect (in the event the annual tax revenues plan and as much as 97% of the adjusted expenditures plan are executed) mainly owing to faster revenue growth over the economic growth and relatively small growth in expenditures contributing to aggregate demand. In the medium term, according to the Mid-Term Expenditures Framework 2024-2026

	and the Budget estimates, the fiscal policy's effect is expected to be neutral.
Armenia's export opportunities continue to expand given the potential growth, primarily in IT industry.	✓ High growth in Information and Communication sector will be maintained in the short term, which will have an average 1.8-2.0 percentage points of positive impact on the GDP potential in 2023.
A certain increase in labor supply is expected in the Armenian labor market.	✓ Seasonal migration to the Russian Federation slightly slows down due to unfavorable economic environment in Russia, while labor migrants integrate into the labor market of the Republic of Armenia in the light of improved working conditions in Armenia. ✓ Influx of labor migrants as a result of improvement in relative conditions of the Armenian labor market (average wages in the private sector in dollar terms). ✓ The people forcibly displaced from Artsakh gradually integrate into the Republic of Armenia labor market.
In the mid-term perspective, the mining sector is expected to make a certain positive contribution to the growth of the GDP potential.	✓ The operation of the Amulsar mine will contribute positively to the Armenia's potential growth between 2023-2025. Specifically, the mine's contribution to accelerating the potential growth will reflect strong growth in the construction sector and higher investment activity (about 1.0 percentage point in GDP) in 2023, and expanded output and export potential (some extra 2.0 percentage point contribution to the GDP) in 2024 and, to a certain extent, in 2025.

Scenario risks

Heightened geopolitical uncertainties in the region and around the globe carry on, creating risks and challenges in terms of balancing the world economy, ensuring normal functionality and full recovery of international commodity, food and financial markets, and supply chains.

Along with risks from the outside world, there are geopolitical risks associated with large-scale military aggression by Azerbaijan. These factors continue to be reflected in broader ranges of uncertainty around the scenarios for inflation and other key macro indicators (see Charts 1 and 2). Accordingly, in the time of high uncertainties, only quantitatively

the most significant risks around the presented scenario are introduced below.

In the aggregate demand point of view, the risks are as follows:

- Labor markets in all trade partner countries are functioning under “overheated” conditions. The unemployment is at historically low levels, and job creation continues to be strong, especially in the services sector. As these trends carry on, the growth of wages in certain branches may remain high, creating additional inflationary risks.
- Substantial tightening of lending conditions in the US banking system, the noticeable slowing of industry in the European Union, and persisting problems in the real estate market in China may leave a significant impact on the decline in global demand.
- The fiscal policy in Russia may be more stimulative than expected, facilitating a faster recovery of demand in the economy and expansion of the inflationary environment.
- As geopolitical developments carry on, there are risks related to revising the risk premium for Russia and continued depreciation of the ruble.
- The duration and scale of the expected influx of international visitors, tourists and financial resources in the context of current geopolitical events in the region influence the Armenian economy in terms of creating mainly positive risks to demand.
- In case the security situation in Armenia and/or the region deteriorates in the wake of geopolitical developments, there may be an outflow of foreign visitors and capital, which may have both inflationary (depreciation of the exchange rate) and deflationary (reduction of external demand) effects.
- The possible slowdown of seasonal migration from and remittances to the Republic of Armenia driven by unfavorable economic environment in Russia and restricted movement of capital as well as improving working conditions in Armenia, creates risks in terms of slowing consumption, on the one hand, and increasing labor supply in the domestic economy, on the other.
- In the fiscal policy point of view, there are both upside and downside risks to demand. In particular, the downside risks mainly relate to underperforming capital expenditures against projected high indicators. On the other hand, low public debt

levels, easier budget rules and planned large reserve funds are an opportunity to increase current spending as well as contain risks in terms of stimulating demand.

- Lingering of excess demand over rather a long while, as driven by internal and external factors, and high inflationary environment observable in Armenia in previous years contain risks to deanchoring long-term inflation expectations, despite low inflation at present and some reduction in short-term inflation expectations.
- With an increase in the amount of savings accumulated in the private sector, there are both inflationary and deflationary risks associated with accelerating consumption and investment growth, respectively.
- As uncertainties decrease and consumer confidence grows, there are risks associated with continued acceleration of consumer lending.

In the supply point of view, the risks to inflation are as follows:

- Risks to commodity and food price valuations are associated with both the effectiveness, duration and scope of the OPEC+ alliance's agreement to cut oil production, and with possible disruptions in supply chains and ensuring fundamental supply volumes in international markets in case of escalation of the Russian-Ukrainian conflict and continued tension in the Middle East.
- With geopolitical tensions persisting, there are risks to deglobalization and primarily inflationary risks deriving from it.
- In view of a substantial improvement in the relative conditions of Armenia's labor market (average private sector wages in dollar terms), an influx of migrant workers may be possible. As well as contributing to some growth of aggregate demand, this will leave primarily a deflationary effect as a result of the surpassing growth of aggregate supply. At the same time, international cooperation and established partnerships will make the Armenian labor market more flexible in responding to changes in demand.
- In the face of continued tension on the borders of the Republic of Armenia, high geopolitical and regional uncertainties, there are inflationary risks associated with financial markets'

overreaction and the increase in the country risk-premium of the Republic of Armenia.

In the medium-term perspective, the risks to the inflation deviating from the presented scenario are estimated as balanced and, on the whole, rather big quantitatively (see Chart 1).

In addition to the above-mentioned inflation risks, there are more mid-term risks to potential economic growth that are both dual-sided and balanced. In particular, the risks are related to the domestic and external factors, as follows:

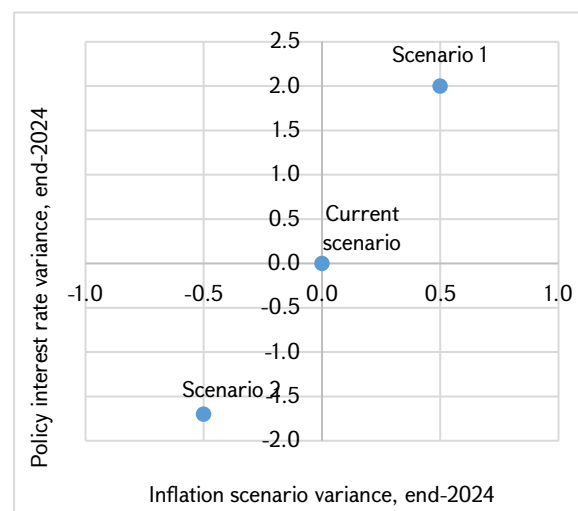
- Uncertainties related to the operation of the Alaverdi copper smelter, which is an upside risk.
- Uncertainties related to the timing of the Amulsar mine operation, the nature and extent of investment, and to output and export volumes following the operation of the mine, which is both an upside and downside risk according to the scenario presented.
- Positive risks associated with increased labor supply and economic potential owing to additional influx of foreign labor.
- Difficulties in the activity of companies operating with Russian capital in the Armenian economy, which is a negative risk in terms of the domestic economic growth.
- Both positive and negative risks related to the nature, scope, and duration of capital financial flows to the Armenian economy, and to possible transformation of the economy.
- Negative risks related to the size and effectiveness of capital expenditures (including the economy's ability to absorb such expenditures) outlined in the medium-term budget expenditure plan.
- Negative risks related to border tensions and geopolitical and regional uncertainties.
- Mostly positive risks related to acceleration of investment as a result of savings accumulated in the private sector.
- The programs with the EUR 2.6 billion support package intended to be carried out within the framework of the EU Eastern Partnership, which is an upside risk (annual GDP growth of around 0.9-1.0%).

In general, there are major uncertainties about possible geopolitical developments, the speed of recovery of demand in Russia, rearrangements in international supply chains, the continuity of international travel and capital and labor inflows to Armenia, the slowing

of seasonal migration from the Republic of Armenia, the status of forcibly displaced population from Artsakh, and the areas of use of large amount of savings accumulated in the real sector of the domestic economy, and therefore the Central Bank of Armenia aims to control the possible risks arising from these uncertainties by building and deliberating various scenarios on how the situations would unfold. Specifically, driven by the peculiarities of the current phase, in the context of numerous risks to be possibly materializing, two typical scenarios of economic development assuming a relatively tight or loose monetary policy against the presented scenario were considered in depth, as follows:

- Savings accumulated in the private sector on the back of the recent higher-than-expected economic growth, coupled with a substantial increase in income in the economy and gradually reducing uncertainty about future incomes, are channeled mainly to boost up private consumption. In the meantime, the continued growth of consumer loans contributes to a significant expanding of demand in the economy. On the other hand, reduced public debt and easier fiscal rules provide major opportunities for the Government to increase current expenditures for the upcoming period, which is paramount in terms of supporting the population forcibly displaced from Artsakh. In this case, excess demand and inflationary pressures in the economy may persist longer and lead inflation expectations to remain elevated, which would make the achieving of the inflation target more costly. In the outcome, the Central Bank will need to look to tighter policy conditions in the near future to ensure the price stability (scenario 1).
- Recently, important preconditions have emerged in terms of increasing the labor supply in the Armenian labor market. In particular, the share of foreign workers in the Republic of Armenia has increased following the appreciation of the Armenian dram and a notable rise in average wages in the Republic of Armenia. This, along with established international ties, helps to further attract foreign labor into the domestic labor market of Armenia. On the other hand, the sanctions imposed on Russia, notable depreciation of the ruble and the decline in incomes in the Russian economy may decelerate the seasonal migration from Armenia to Russia and thus help the seasonal migrants integrate into the Armenian labor market. This may also lead to a decline in remittances from Russia, weakening the

Chart 23
Possible scenarios of economic development in the current situation



Source: Central Bank of Armenia scenario

domestic demand and inflationary pressure in Armenia. The integration of the forcibly displaced population from Artsakh into the Armenian labor market will also contribute to the growth of the labor supply in Armenia. If the above factors play out, the increase in labor supply will substantially reduce the upside pressures on wages and inflation, while speeding up the GDP growth and potential economic growth. Thus, the 12-month inflation will decline much faster against the scenario presented in this program, which would necessitate a rapid reduction in policy rates (scenario 2).

Note that we have considered the options of an appropriate policy response to the scenarios, which will allow to react to the situation accordingly at first substantial signs of these risks materializing.

3. ACTUAL DEVELOPMENTS IN Q3, 2023

3.1. Inflation

3.1.1. Fulfilment of the inflation target

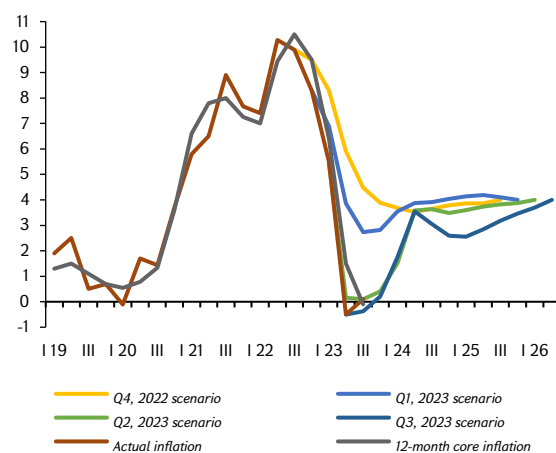
According to the main judgements of the scenario presented in the program for the fourth quarter of 2022, the high inflation environment and inflation expectations would have persisted in the near term due to the inflationary impact from foreign markets and the high demand shaped in the Armenian economy in the context of the expected large inflow of international visitors and financial resources. At the same time, it was estimated that in the medium term the effects of global inflationary patterns and external demand would weaken with the continuous appreciation of the Armenian dram and, together with the impact of the contractionary monetary policy implemented by the Central Bank of Armenia, would contribute to the reduction of inflation, stabilizing it around the 4% target starting from the second half of 2023.

In the period under review, the 12-month inflation decreased at a faster rate than expected, mainly due to the rapid and significant weakening of external inflationary effects, as well as the impact of the continued appreciation of the dram. In that situation, the projected inflation trajectory for the short-term sector was significantly adjusted downwards in the estimates for each successive quarter.

According to the actual macroeconomic developments in the period under review, the pace of economic activity continued to slow down in the global economy and in Armenia's main partner countries, mainly due to the impact of the ongoing Russia-Ukraine conflict and various sanctions imposed on Russia. At the same time, as a result of the implementation of the contractionary monetary policy aimed at overcoming high inflation from partner countries, there was a slowdown in demand and some softening of the inflationary environment, as well as a significant decrease in energy and food prices in international commodity markets. Under these conditions, the external inflationary impact on the Armenian economy has significantly weakened. In the period under review, higher than expected activity was recorded in the Armenian economy mainly thanks to demand factors. These were demonstrated primarily in the form of a significant increase in external demand in the services sector, influenced by considerable inflows of international visitors, including tourists, and financial resources. There were positive developments also in the IT and manufacturing sectors, reflected in increasing production capacity and exports in these sectors. At the same time, high demand from international visitors and a

Chart 24

In the period under review, the 12-month inflation has followed a steeply declining path, with the short-term estimate of each consequent quarter revised notably downside



Source: Armenia Statistics Committee,
Central Bank of Armenia scenario

significant inflow of financial transfers from abroad resulted in a significant appreciation of the dram in the Armenian currency market. The last part of the reporting period also saw a slight recovery in domestic demand, due to increased domestic consumption in the context of rising incomes.

In view of such developments, in the fourth quarter of 2022, despite a slight weakening of the inflationary effects on the Armenian economy from the external sector, the Central Bank of Armenia further pursued a contractionary monetary policy, increasing the policy rate by a total of 0.75 percentage point. The contributions of continued high demand and inflation expectations in the short term to maintaining high inflation of wages and a number of goods and services were factored into this consideration (see Chart 3).

In the first half of 2023, inflationary effects from the external sector weakened significantly due to the deflationary phenomena observed in terms of imported food products. At the same time, prices of goods and services with “sticky” prices have adjusted at a slow pace amid continued high demand and inflationary impact from the labor market. Given this situation, the Central Bank of Armenia left the policy rate unchanged until June, maintaining relatively tight monetary conditions.

In the period June-September, in view of continued deflationary trends in both external and domestic commodity markets and a significant neutralization of inflationary factors, the Central Bank lowered the policy rate by a total of 1.0 percentage point, setting it at 9.75%.

To sum up, in the one-year period under review, the 12-month inflation has decreased by 9.8 percentage points to amount to 0.1% at the end of September of 2023, as a result of the contractionary monetary policy implementation, the dram appreciation and significantly eased inflationary effects from the external environment. The 12-month core inflation also decreased at a rapid pace and was in the negative territory at the end of September, reaching -0.1%. It is estimated that the 12-month headline inflation will remain below the target level in the near future, then it will increase gradually and stabilize around the 4% target in the medium term.

In the one-year period under review, the 12-month inflation has decreased by 9.8 percentage points, reaching 0.1% at the end of September of 2023, as a result of the contractionary monetary policy implementation, the dram appreciation and significantly eased inflationary effects derived from the external environment.

3.1.2. Prices

In the fourth quarter of 2022, the inflationary effects from the external sector continued to weaken. At the same time, the growth of demand in the domestic economy resulted in an inflationary environment

where prices of some goods and services remained elevated (see Chart 3).

As such, inflation in global food markets, triggered by the Russia-Ukraine conflict in early 2022, particularly impacting bread products, cereals, meat products, dairy products, and oils and fats, began to ease off by the end of 2022. This was caused by the decrease in the prices of some products (sunflower oil, grains, sugar) in the international commodity markets in the context of expected weak demand in the global economy and the tightening of financial conditions. Simultaneously, the decrease in energy prices toward the year's end notably influenced prices within the Armenian fuel products market. However, this impact was largely canceled out by the end of the reporting period.

It is worth mentioning that the Armenian dram, which appreciated concurrent with growing external demand, also considerably affected the prices of imported goods. Thus, in the period under review, the growth of prices of imported non-food products was contained by 0.7 percentage point amid a 5.4% appreciation of the dram.

On the other hand, given the large influx of international visitors to the Republic of Armenia, high demand created in the Armenian economy has added to inflationary pressures on locally manufactured goods and especially services, as a result of which tariffs for a number of services with relatively “sticky” prices (apartment rentals, restaurants and hotels, hairdressers, medical, financial, and postal services) have been adjusted. The tariffs remained high during the reporting period and only showed a slight downward trend at the end of the period.

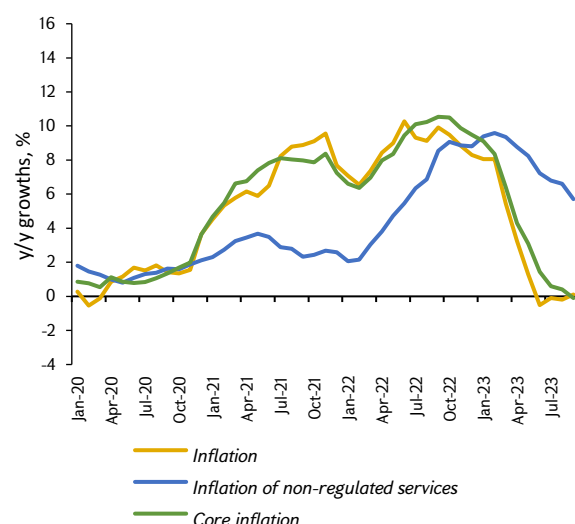
The increase in prices of product groups “Tobacco articles” and “Alcoholic beverage” out of Core Inflation elements suffered, as was estimated, the inflationary effect of the change in excise tax rates at the beginning of the year, especially regarding the tobacco articles. The creeping inflation in the local market of alcoholic beverages as a result of the relatively reduced export volumes has somewhat contained the inflationary patterns in the overall product group.

In addition to the above factors, the slowing of inflation since the start of the reporting period has been largely supported by a milder-than-expected rise in seasonal food prices, following gradually neutralizing unfavorable weather conditions in early 2022 and notably warmer weather already in the second quarter of 2023.

The secondary inflationary effects triggered by raised tariffs on regulated services in early 2022 intensified in the latter part of the year but nearly disappeared by the end of the period under review.

Chart 25

In the period under review, the inflationary effects transmitted from the external sector have eased substantially, with both headline and core inflation declined sharply



Source: Armenia Statistics Committee,
Central Bank of Armenia scenario

Table 4: Consumer price inflation by product group as key contributors

Product group	Weight	12-month inflation: September 2023	Contribution to inflation y/y
Core inflation	73.9	-0.1	-0.1
Bread and cereals	8.5	-8.3	-0.7
Meat	10.6	-0.5	-0.1
Oils and fats	2.9	-21.0	-0.6
Sugar	0.5	-8.1	0.0
Dairy products	4.4	-0.2	0.0
Alcoholic beverage	2.5	5.6	0.1
Tobacco articles	2.0	11.4	0.2
Clothing	2.2	3.0	0.1
Footwear	1.2	7.0	0.1
Household appliances	0.6	3.7	0.0
Fuel	5.4	-2.4	-0.1
Air passenger transportation services	1.1	18.9	0.2
Outpatient care services	2.6	6.1	0.2
Actual rent paid by the tenant for additional accommodation	1.1	9.2	0.1
Restaurants and hotels	1.9	5.3	0.1
Fees for services of banks, post offices	0.8	13.1	0.1
Imported food products	15.3	-7.7	-1.2
Seasonal food products	11.0	5.0	0.5
Eggs	1.6	15.1	0.2
Fruits	4.1	-0.4	0.0
Vegetables	5.3	6.6	0.3
Regulated services	15.1	0.3	0.0

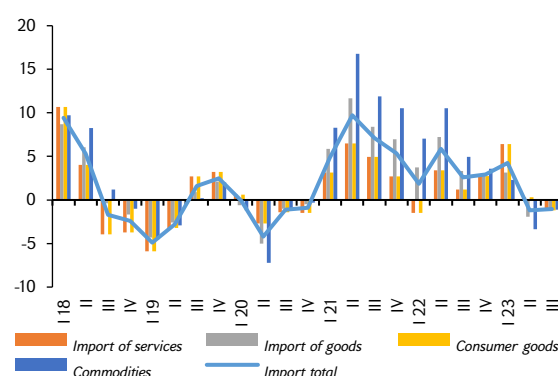
Import prices

The prices of food products further trended down in the global economy during the third quarter of 2023, and this has been reflected in the price dynamics in the main trade partner countries. As a result, the dollar prices of imports to Armenia have fallen against the previous quarter driven by the decrease in prices of all product groups. Thus, in the course of the third quarter, relative to the previous quarter, the dollar prices of imports to Armenia have dropped by 2.1%, with a year-on-year decrease amounting to 1.1%.

The decrease in prices of final consumption goods relative to the same period last year has been primarily driven by reduced dollar prices in Russia and China. It is worth mentioning that the prices of wheat followed the downward trend. The contribution of dollar prices of final

Chart 26

In the third quarter of 2023 the dollar prices of import of goods and services continued decreasing, y/y, %



Source: Central Bank of Armenia calculations

consumption goods was 0.2 percentage point negative, while that of intermediate consumption goods, 0.5 percentage point negative.

3.2. Economic developments

3.2.1. Cyclical economy position

In the period under review the GDP gap remained in the positive territory. In the third quarter of 2023 the economic growth amounted to 7.4%, standing a little above the estimate of the previous MP program of the Central Bank of Armenia (see section 3.2.3). High growth was further fueled by strong growth reported in services and construction sectors, reflecting the acceleration of domestic demand. As a result, the GDP gap continued staying in the positive territory (see section 3.1.2).

3.2.2. Expenditures side of the economy

The economic growth in the third quarter of 2023 was primarily driven by a 5.4% increase in private expenditures on the back of strong growth in private fixed assets in the main. Increased government spending also contributed greatly, and net exports had a slightly positive impact on economic growth, which exceeded expectations.

In the period under review, the income and private sector's savings accumulated on the back of high external demand were channeled into private spending, leading to an increase in domestic demand. At the same time, high growth in lending to households continued. Note that high growth of private investment is in line with maintaining the organization-funded housing construction at an elevated level.

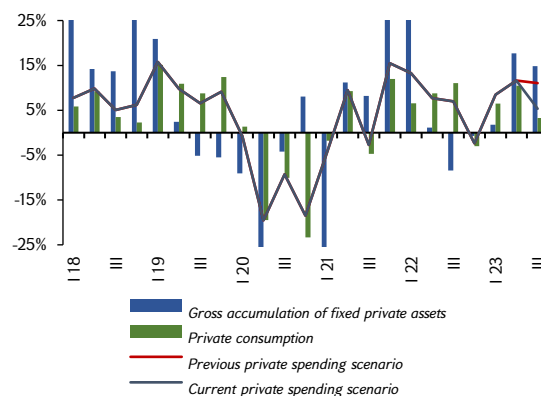
The impact of external demand remained positive during the third quarter of 2023, especially thanks to persistently high growth of tourist inflows. In the meanwhile, the growth rates of export of goods were gradually adjusted following the overreaction in the previous year. The growth of real import of goods and services was also adjusted in the context of high domestic demand. As a result, in the third quarter of 2023 the growth of real export of goods and services was 0.2% y/y, while the real import of goods and services dropped by 2.3% y/y.

To sum up, it should be noted that the contribution of net real exports to GDP in the third quarter was somewhat more positive than anticipated.

In the third quarter of 2023, the growth of net remittances of individuals, which include income of seasonal workers and personal transfers, was adjusted downside, following high growth observable in the previous year (the decrease was slightly higher than expected). The decrease was estimated to be roughly 52% y/y. The decline in the dollar

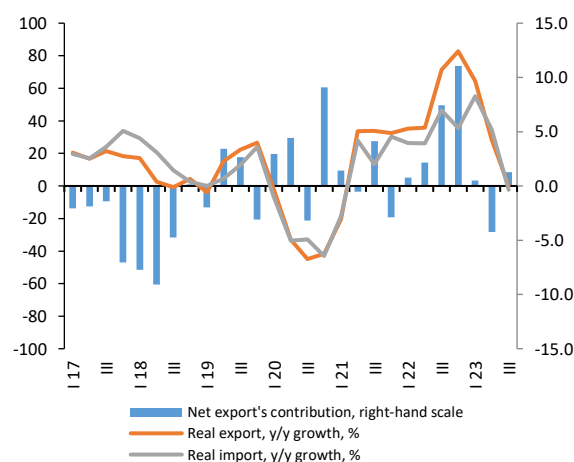
In the third quarter of 2023, the economic growth amounted to 7.4%.

Chart 27
The structure of private spending, y/y growth



Source: Armenia Statistics Committee,
Central Bank of Armenia estimate

Chart 28
In the third quarter of 2023 the contribution of net export was slightly positive, y/y, %



Source: Armenia Statistics Committee

equivalent of remittances was partly due to sharp depreciation of the Russian ruble during the quarter.

Fiscal policy⁴

In the third quarter of 2023 the state budget revenues did not deviate much compared to previous Central Bank of Armenia estimates, and the Budget posted underperformed expenditures mainly on account of capital expenditures. As a result, the impact of fiscal policy on aggregate demand has weakened and is estimated to be 0.4 percentage point expansionary.

In the third quarter of 2023 the state budget revenues amounted to 105% of the Government-adjusted plan, primarily owing to higher tax revenue collection. Other revenues also came in overperformed against the plan. Although tax revenues did not deviate much from the estimates by the Central Bank in the third quarter, the revenue impulse was revised upside following the higher-than-expected economic growth, and estimated to be minor stimulative, 0.4%.

The state budget expenditures in the third quarter were lower from the Central Bank estimates. As a result, the expenditures impact came in neutral compared to the previous quarter, instead of the stimulative as estimated before. In the structure of state budget expenditures, mainly capital expenditures were underperformed.

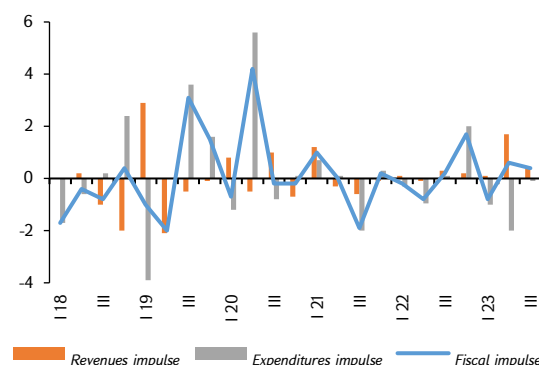
In the third quarter of 2023, with the revenues and expenditures dynamics mentioned above, the Republic of Armenia state budget reported an AMD 60.1 billion of deficit. Meanwhile, the deficit of the consolidated budget amounted to roughly AMD 71.6 billion.

3.2.3. Production side of the economy

In the third quarter of 2023 the economic growth amounted to 7.4%, somewhat higher from the previous projection by the Central Bank of Armenia. The services and construction sectors with their reported increases of 10.8% and 17.4%, respectively, further contributed to the economic growth. High growth in services continued to be supported mainly by vigorous growth in the information & communication industry, and trade; the acceleration of the latter was fueled by strong domestic demand. In the construction sector, the organization-funded construction carries on, with housing construction as key driver to the growth in the sector.

Chart 29

In the third quarter of 2023 the fiscal policy's impact was contractionary relative to the previous quarter

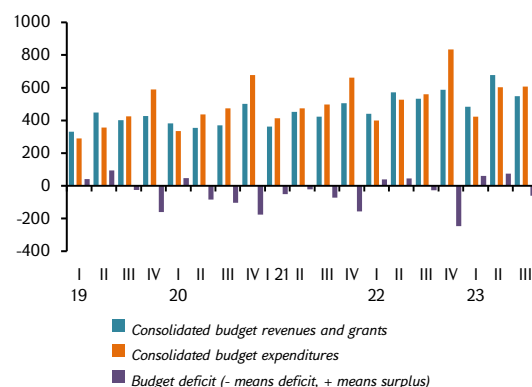


Source: Central Bank of Armenia estimate

The impact of fiscal policy on aggregate demand is estimated 0.4 percentage point expansionary.

Chart 30

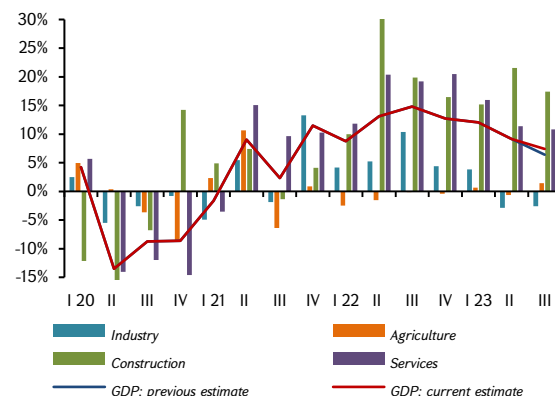
The State budget posted a deficit in the third quarter of 2023 (billion of Armenian dram)



Source: Armenia Statistics Committee

Chart 31

The GDP structure by sector, y/y growth, %



Source: Armenia Statistics Committee, Central Bank of Armenia estimate

⁴ The review of the fiscal sector was done using the actual consolidated budget indicators for the third quarter of 2023.

Sluggish growth (1.4%) in agriculture sector lingered due to negative developments in animal breeding. A recorded -2.6% decline in industry has been primarily attributable to certain slowdown in manufacturing.

3.2.4. Labor market

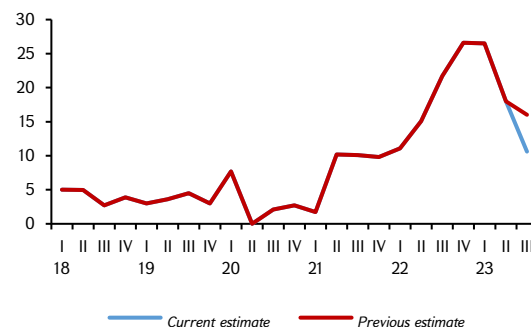
In the third quarter of 2023 the unemployment rate is estimated around 12.9%, which is somewhat lower from previous Central Bank of Armenia estimates. The unemployment rate is still below the long-term sustainable level (15%).

In the period under review, the growth of nominal private sector wages amounted to 10.6%, which is slightly below the previous projection by the Central Bank of Armenia. The wage growth continues to be indicative mostly in the services sector, which is also commensurate with strong output growth in the sector. Yet, inflationary pressures from the labor market have eased significantly.

The real wage growth in the private sector amounted to roughly 10% in the light of strong nominal wage growth and sluggish inflation environment.

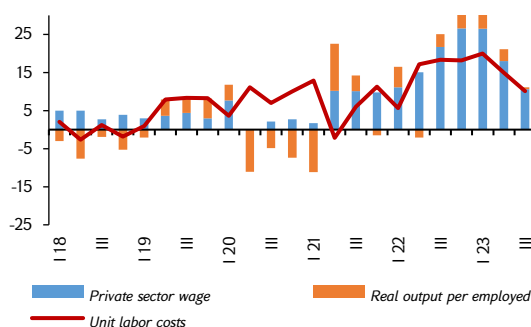
In this respect, the private wage growth remains high, but the pace of growth has slowed considerably.⁵

Chart 32
Private nominal wage growth y/y (%)



Source: Armenia Statistics Committee,
Central Bank of Armenia estimate

Chart 33
Unit labor costs growth y/y (%)



Source: Armenia Statistics Committee,
Central Bank of Armenia estimate

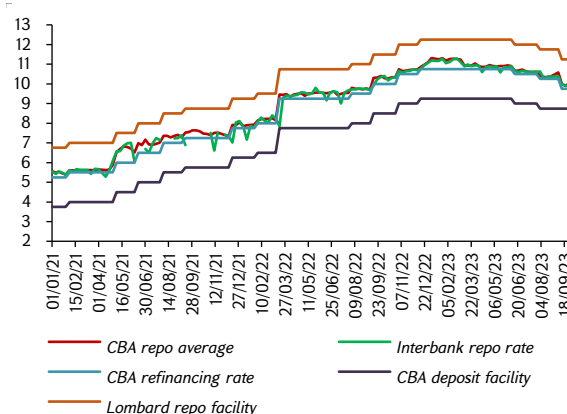
3.3. Financial market developments

In the third quarter of 2023 the Board of the Central Bank of Armenia reduced the refinancing rate by 0.75 percentage point to 9.75%.

In the third quarter of 2023, the economic activity and aggregate demand growth remained elevated in Armenia although inflationary pressures have eased significantly. As a result, in the third quarter, the Board of Central Bank of Armenia cut the policy rate by 0.75 percentage point. The Board announced, among others, that they would be prudent in taking required action to stabilize demand and inflation expectations.

In the third quarter of 2023 the Board of the Central Bank of Armenia lowered the refinancing rate by 0.75 percentage point to 9.75%.

Chart 34
During the quarter the short-term interest rates continued shaping around the Central Bank's policy rate



Source: Central Bank of Armenia

⁵ In unit labor costs, the productivity is represented by a negative contribution.

Table 5: Average interest rates in Armenia's financial market

	14.09.22 – 01.11.22	02.11.22 – 13.12.22	14.12.22 – 31.01.23	01.02.23 – 29.03.23	01.04.23 – 13.06.23	14.06.23 – 31.07.23	01.08.23 – 11.09.23	12.09.23 – 30.09.23
Central Bank refinancing rate	10.0	10.5	10.75	10.75	10.75	10.50	10.25	9.75
Central Bank repo rate	10.32	10.7	11.11	11.12	10.90	10.67	10.42	9.97
Interbank repo rate (up to 7-day)	10.32	10.66	11.11	11.06	10.82	10.64	10.4	9.93
Yield of government securities on a yield curve (average indicator)								
Short-term treasury bills (1-year)	10.86	11.50	11.67	11.54	11.44	11.06	10.63	10.37
Medium-term notes (5-year)	11.43	11.83	11.94	11.76	11.40	10.91	10.41	10.34
Long-term bonds (30-year)	12.04	12.11	12.02	11.85	11.37	10.64	10.42	10.24

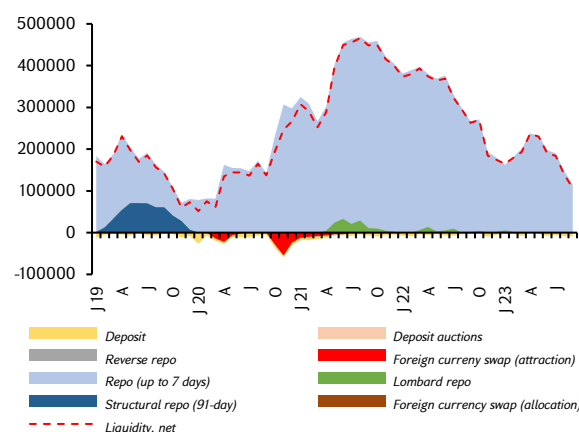
High levels of liquidity and capital were further sustained in the domestic financial system during the third quarter of 2023. As a result, the banking system's demand for provision of liquidity through the main instrument of the Central Bank of Armenia continued decreasing to some extent this quarter, too. Nevertheless, the short-term interest rates in the dram market came to shaping around the policy rate.

In the third quarter of 2023 the government securities market saw the yield curve slope down the entire segment, which is in line with the Central Bank of Armenia actions at that period of time. The end-September 2023 events in Artsakh were reflected in increased volatility and uncertainty in the financial system, and a certain increase in the yield curve was observable. In general, the average decline in yields on government securities along the entire curve was nearly 0.7 percentage point in the third quarter.

The funds attracted and provided by commercial banks continued to grow during the third quarter of 2023, reflecting high economic activity in the real sector. At the same time, an increase in interest rates of loans to households was recorded driven, in part, by high demand for consumer loans.

Chart 35

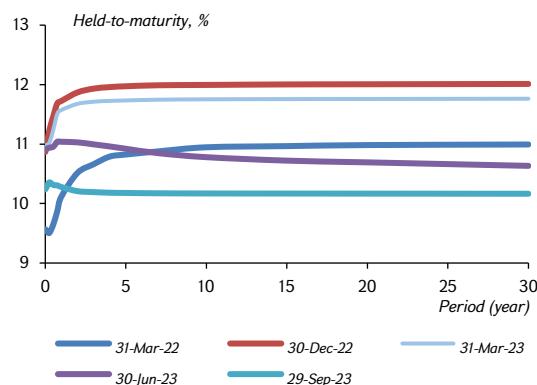
Liquidity injected and absorbed through Central Bank transactions (average monthly inventory, million Armenian dram)



Source: Central Bank of Armenia

Chart 36

In the third quarter of 2023 the government security yield spreads narrowed in short- and long-term segments

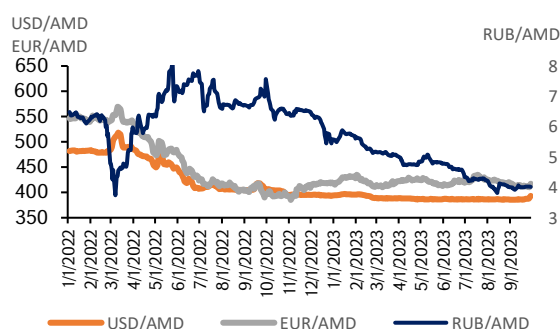


Source: Central Bank of Armenia

The Central Bank of Armenia surveys⁶ show that the third quarter's index of lending terms of commercial banks denoted net easing. Demand for loans continued to grow mainly owing to consumer loans, while the index of demand for mortgage loans followed a net downward trend. The surveys were conducted in October in the middle of high uncertainty, so the indexes of expected lending terms and expected loan demand came in somewhat declined, but the growth of lending in the financial system resumed in a sound rate after uncertainty and volatility in the financial system diminished.

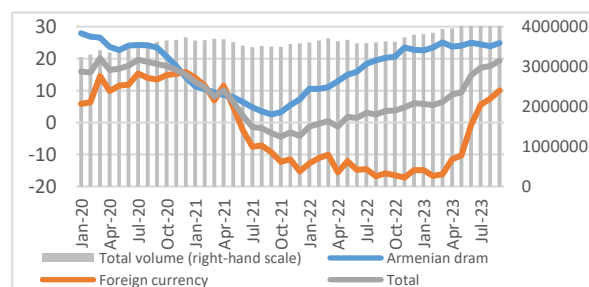
In the currency market in the third quarter of 2023, the Armenian dram appreciated against the Russian ruble, largely determined by the developments in the Russian economy and the ruble depreciation against the currencies of trade partner countries. The dram performed relatively steady vis-à-vis the European currency, the euro, and the US dollar. In the period under review, upside appreciation pressures on the Armenian dram continued to be fostered by international visitors's high demand for domestic services and increased output and export of high productivity services. On the other hand, strong domestic demand and accelerated imports have somewhat offset the appreciation pressures. In some episodes, the vast inflow of foreign currency overtook the absorbing capacity of the domestic currency market, causing market disruption risks. The Central Bank of Armenia reacted to this situation through intervention in the market by purchasing USD 415.3 million and helping the financial markets return to normal functioning.

Chart 41
The behavior of currency exchange rates versus the Armenian dram



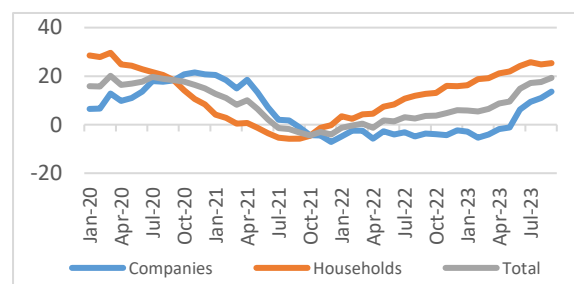
Source: Central Bank of Armenia

Chart 37
Change in the loans provided by banks (12-month change)



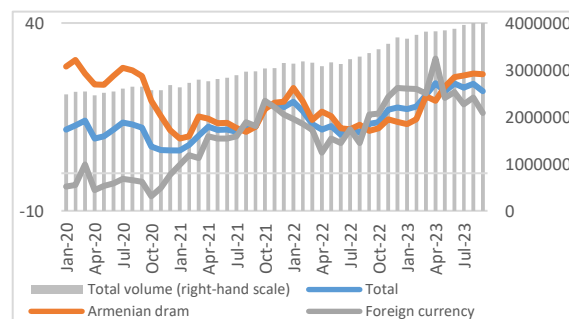
Source: Central Bank of Armenia

Chart 38
Change in the loans provided by banks as per sector



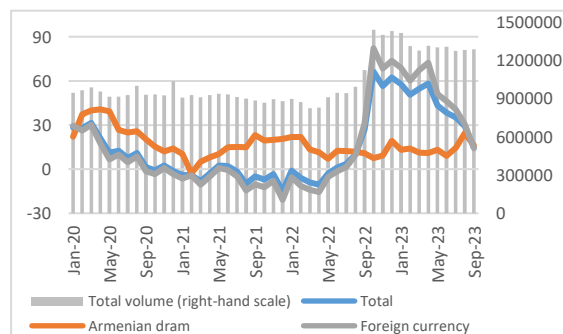
Source: Central Bank of Armenia

Chart 39
Change in the deposits attracted by banks (12-month change)



Source: Central Bank of Armenia

Chart 40
Change in the deposits attracted by banks (12-month change) (non-residents)



Source: Central Bank of Armenia

⁶ Please see <https://www.cba.am/am/sitepages/statssbankslending.aspx>

4. SUMMING-UP

According to the scenario presented in the Q4, 2023 Monetary Policy Program of the Central Bank of Armenia, a low inflation environment will persist in the near future mainly due to deflationary effects to be transmitted from international markets and a slight decline in inflation expectations. In such a situation, the Central Bank of Armenia considered it appropriate to continue the gradual easing of the monetary conditions at this stage. In the meantime, the Central Bank will be consistent in taking required action to further regulate the demand and stabilize the inflation expectations. In view of the monetary policy implementation and anticipated macroeconomic developments, the 12-month inflation will remain below the target in the near term; it then will gradually increase and stabilize around the 4% target in the mid-term perspective.

For the 3-year policy horizon as presented in the scenario, the probability risks of inflation deviating from the projection path are mostly balanced, and in the event any such risks materialize, the Central Bank of Armenia will stand ready to react accordingly to ensure the price stability objective in the medium run.

MINUTES
OF THE CENTRAL BANK OF ARMENIA
BOARD MEETING
(12.12.2023)

On the refinancing rate

**The Central Bank Board Meeting of December 12, 2023 attended
by Governor Martin Galstyan, Deputy Governors Armen
Nurbekyan and Hovhannes Khachatryan, and Board Members
Hasmik Ghahramanyan, Davit Nahapetyan, Artak Manukyan,
Levon Sahakyan, and Narek Ghazaryan**

The meeting of the Board of the Central Bank of Armenia started with presentation of the *Situation Report* as of December 12, 2023. The meeting addressed the developments on inflation, external environment, and real, fiscal, financial, and monetary sectors of the economy.

Current developments in the external sector were presented. In the fourth quarter, it was noted, the economic activity in the world and main partner countries to Armenia continues to slow down in the context of ongoing geopolitical developments and persisting uncertainty. With such processes, coupled with contractionary monetary policy pursued, the prices in international commodity markets are falling and the inflationary environment in the global economy somewhat easing. Nevertheless, the 12-month inflation indicators in the main partner countries to Armenia are still above their target value, and the central banks of these countries will maintain relatively contractionary monetary conditions in the near future. It is estimated that, as a result of the aforementioned developments, the effects on the Armenian economy from the external sector are expected to be deflationary.

The Board deliberated on the current developments in the Armenian economy; the economic activity, it was recorded, remains strong during the fourth quarter, driven mainly by strong growth in the services and construction sectors. During the quarter, aggregate demand also remains high mainly on account of the increased domestic demand, which in turn is supported by private consumption grown high on the back of spending of previously accumulated savings and continued increase in incomes. At the same time, external demand somewhat weakens, pointing to a slowing influx of international visitors and tourists.

Armenia's financial market developments were addressed. It was stated that in the fourth quarter of 2023 the short-term market interest rates again came to shaping mostly around the policy rate. Moreover, following regional and geopolitical developments, yields have risen across the entire yield curve in the government securities market in recent months. Driven by very same factors, a certain volatility has been observable in the foreign exchange market, to which the Central Bank of Armenia reacted by situational participation in the market (through foreign currency sale) to ensure the normal functioning of the financial market. It was also admitted that, with domestic demand accelerating, the growth rate of consumer and mortgage lending to individuals remains high.

The Board proceeded to deliberating on the inflation developments; it was stated that in November 2023 0.5% inflation was registered against October 2023, in comparison with 1.1% inflation recorded in the same period last year. The month's inflation was due to the increase in prices of food products (by 0.6%), non-food products (by 0.3%) and service tariffs (by 0.2%). The 12-month inflation, as a result, has dropped to -0.5% at the end of November. The 12-month core inflation in October was 0.0%. It was also noted that in the context of deflationary effects from the external sector and the contractionary monetary policy implemented by the Central Bank of Armenia, the inflationary environment is persisting low, which is also expressed by a certain decrease in the growth rate of wages and inflation expectations in the labor market.

Following the discussion of the *Situation Report* and the macroeconomic developments in external and domestic sectors, the Board proceeded to addressing the macroeconomic scenarios and monetary policy directions, and to making decision on the policy interest rate. In view of the aforementioned macroeconomic situation, the Policymakers' team provided the Board with the narrative-based scenarios for the monetary risks that would possibly derive from near-term economic development outlooks. The members of the Board, deliberating on various scenarios for economic development, agreed that the inflation environment was further low largely determined by deflationary effects from the external sector and the Central Bank's contractionary monetary policy. The Board assessed that the 12-month inflation will still be below the target in the near future. Moreover, following the increase in labor supply in the Armenian labor market and smooth inclusion of the forcibly displaced population from Artsakh in the labor market, the Board admitted that there may emerge risks to labor market pressures, decreased wages and notably weakened inflation

environment domestically. On the other hand, the Board looked to the fact that high uncertainties over inflation expectations persist, domestic demand factors in the economy continue expanding, and under this circumstance the excess demand and inflationary pressures may persist longer and lead to increased inflation expectations, among others. Therefore, for risk management, the Board considered it more appropriate to continue the course of gradual weakening of monetary conditions. As a result, the **Board of the Central Bank of Armenia decided unanimously to reduce the refinancing rate by 0.25 percentage point**. The Board also endorsed its commitment in taking adequate measures to further regulate demand and stabilize inflation expectations. As outlined in the monetary policy scenario, the 12-month inflation will remain below the target in the near future, it then will gradually increase and stabilize around the 4% target in the mid-term perspective.

The Board also estimated that the risks of inflation deviating from the projection path are mostly balanced. In the event the risks materialize in either direction, the Board will react accordingly to ensure the price stability objective.

The Board approved the decision on interest rates of monetary instruments of the Central Bank of Armenia and the proposed press release, which are attached hereto.

THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA
BOARD DECISION

CODE
050.0221 L. 12.12.23

December 12, 2023, No. 221 L

**ON THE SETTING OF INTEREST RATES OF MONETARY POLICY
INSTRUMENTS OF THE CENTRAL BANK OF THE REPUBLIC OF
ARMENIA AND THE PRESS RELEASE ON THE REFINANCING RATE**

By virtue of Article 2 (3), Article 20 “c” and “e” of the Republic of Armenia Law on the Central Bank, and clauses of the Republic of Armenia Law on Normative Regulations, the Board of the Central Bank of the Republic of Armenia

E n a c t s:

1. Set the Refinancing rate of the Central Bank of the Republic of Armenia to be 9.25%.
2. Set the Lombard facility rate offered by the Central Bank of the Republic of Armenia to be 10.75%.
3. Set the Deposit facility rate offered by the Central Bank of the Republic of Armenia to be 7.75%.
4. Approve the Press Release on the Refinancing Rate of the Central Bank of the Republic of Armenia (attached).
5. This decision to take effect on the day following its publishing on Internet homepage of the Central Bank of the Republic of Armenia.

Martin Galstyan,
Governor of the Central Bank of the Republic of Armenia

c. Yerevan

PRESS RELEASE
12.12.2023

At the December 12, 2023 meeting, the Board of the Central Bank of Armenia decided to decrease the refinancing rate by 0.25 percentage points, setting it at 9.25%.

In November 2023, the 12-month CPI inflation rate decreased, amounting to -0.5% at the end of the month. The 12-month core inflation rate in October stood at 0.0%.

In the fourth quarter, economic activity globally and in the main trade partner countries of the Republic of Armenia continues to slow. This is reflected in declining international commodity prices and softening global inflation rates. In this context, the central banks of trade partner countries will maintain relatively contractionary monetary conditions in the near future. As a result, the effects on the Armenian economy from the external sector are expected to be deflationary.

Economic activity in the Republic of Armenia remains strong in the fourth quarter, driven by high growth in the construction and services sectors. While external demand is slowing, domestic demand continues to remain robust, driven by strong growth in private consumption. Given weak deflationary pressures from the external sector as well as the implemented contractionary monetary policy stance, the inflationary environment remains low, which is also reflected in a somewhat slower pace of wage growth as well as somewhat diminished inflation expectations.

In this context, the **Board of the Central Bank of Armenia finds it appropriate to reduce the policy rate**. The Board will continue to be prudent in ensuring that adequate actions are taken to regulate demand and stabilize inflation expectations. As outlined in the monetary policy scenario, the 12-month CPI inflation rate will remain below the target level in the near term, and then gradually increase and stabilize around the 4% target in the medium term.

The Board estimates that the risks to inflation deviating from the projected path are mostly balanced. In the event these risks materialize in either direction, the Board will respond accordingly and ensure that the price stability objective is met.

Press Service of the Central Bank of the Republic of Armenia

ARMENIA'S KEY MACROECONOMIC INDICATORS ACCORDING TO THE SCENARIO PRESENTED

Indicators	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	actual	actual	actual	actual	actual	actual	actual	program	program	program	program
External sector											
USA economic growth (% , real growth)	1.7	2.3	2.9	2.3	-2.7	6.0	2.0	2.5	1.3	1.8	3.0
Eurozone economic growth (% , real growth)	1.8	2.7	1.9	1.6	-6.3	5.4	3.3	0.5	-0.4	0.5	1.3
Russia economic growth (% , real growth)	0.2	1.8	2.8	2.0	-2.9	5.7	-1.9	3.2	1.0	-0.4	0.1
USA inflation (average, %)	1.3	2.1	2.4	1.8	1.2	4.6	7.7	4.1	2.7	2.5	2.1
Eurozone inflation (average, %)	0.2	1.5	1.7	1.2	0.3	2.5	8.0	5.6	2.9	2.3	1.8
Russia inflation (average, %)	6.8	3.6	2.8	4.5	3.4	6.5	12.9	5.9	7.6	4.8	4.0
Oil price (dollar/barrel)	45.0	54.6	71.4	64.1	42.5	71.0	99.5	82.1	80.1	81.1	82.2
Copper price (dollar/ton)	4867.6	6201.5	6544.7	6024.1	6191.2	9288.1	8956.0	8458.5	8136.3	8319.1	8541.3
FAO index	91.9	98.0	95.9	95.1	98.1	125.7	143.5	124.1	121.5	124.7	126.76
Domestic economy											
Prices											
Inflation (y/y, end period, %)	-1.1	2.6	1.8	0.7	3.7	7.7	8.3	0.0	3.1	3.8	4.0
Consumer price index (y/y, average, %)	-1.4	1.0	2.5	1.5	1.2	7.2	8.6	2.0	2.6	3.5	4.0
Core inflation (y/y, average, %)	-2.0	0.8	4.0	1.2	1.3	7.2	8.9	2.7	1.8	3.2	3.9
Gross product											
GDP (billion of Armenian dram)	5067.3	5568.9	6017.0	6543.3	6181.7	6983.0	8496.8	9573.4	10563.7	11612.5	12076.9
GDP (% , real growth)	0.2	7.5	5.2	7.6	-7.4	5.7	12.6	8.3	6.1	5.7	5.4
Supply											
Industry (% , real growth)	7.7	11.7	4.9	12.0	-1.7	3.5	6.3	-0.9	6.2	6.1	5.5
Agriculture (% , real growth)	-5.0	-5.1	-6.9	-5.8	-4.1	-0.6	-0.7	0.6	2.5	2.9	2.9
Construction (% , real growth)	-14.1	2.8	0.6	6.5	-6.7	3.1	19.1	17.7	12.8	8.9	7.0
Services (% , real growth)	3.2	10.6	9.1	10.0	-9.7	7.9	18.1	11.4	5.7	5.5	5.1
Tax, net (% , real growth)	-3.7	9.7	8.0	7.1	-10.0	7.4	8.2	10.3	6.7	6.2	5.5
Demand											
Consumption (% , real growth)	-2.1	11.6	3.8	11.7	-10.9	4.2	7.7	9.1	6.4	6.2	4.9
Public consumption (% , real growth)	-2.4	-2.1	-3.0	12.9	9.2	8.4	6.5	12.7	10.4	11.7	5.1
Private consumption (% , real growth)	-2.1	14.0	4.8	11.5	-14.0	3.4	8.0	8.4	5.7	5.4	4.9
Gross accumulation of fixed assets* (% , real growth)	-11.4	9.7	4.8	4.4	-1.5	6.3	9.5	18.5	12.9	9.8	5.5
Public investment** (% , real growth)	5.0	31.7	-37.4	31.1	16.2	-9.9	41.1	46.8	18.0	9.7	0.7
Gross accumulation of private fixed assets (% , real growth)	-13.9	6.2	19.6	-0.5	-5.7	11.2	1.9	12.3	11.3	9.8	5.8
Export of goods and services (% , real growth)	21.3	19.3	5.0	16.0	-33.4	16.6	54.4	22.1	-9.5	2.6	4.0
Import of goods and services (% , real growth)	6.3	24.6	13.3	11.6	-31.4	12.9	33.8	30.0	-7.3	3.2	3.7
Current account											
Balance of trade (million of US dollar)	-976.9	-1400.9	-1724.4	-1727.9	-1382.2	-1504.8	-1859.2	-2575.2	-2666.8	-2776.0	-2873.5
Balance of services (million of US dollar)	70.4	159.4	24.7	-66.9	118.0	396.9	1711.0	1965.2	1690.2	1674.4	1652.8
Money transfers (million of US dollar)	1009.4	1179.3	1136.2	1143.8	1046.2	1274.0	1538.3	935.9	907.3	845.3	854.8
Current account (million of US dollar)	-107.9	-173.9	-875.9	-1002.3	-477.8	-483.0	151.0	-753.0	-875.3	-1022.3	-1131.9
Balance of trade (share in GDP, %)	-8.6	-10.8	-13.7	-13.1	-10.0	-7.9	-0.8	-2.5	-3.8	-3.9	-4.0
Balance of services (share in GDP, %)	0.7	1.4	0.2	-0.5	0.9	2.8	8.7	8.0	6.5	5.9	5.4
Money transfers (share in GDP, %)	9.5	10.2	9.1	8.4	8.3	9.1	7.9	3.8	3.5	3.0	2.8
Current account (share in GDP, %)	-1.0	-1.5	-7.0	-7.3	-3.8	-3.5	0.8	-3.1	-3.4	-3.6	-3.7
Public sector***											
Revenues and grants (billion of Armenian dram)	1171.1	1237.8	1342	1559.1	1560.4	1683.8	2046.0	2355.0	2664.2	3033.7	3461.0
Tax revenues (billion of Armenian dram)	1079.7	1158	1258	1464.3	1385.2	1586.9	1926.0	2224.8	2566.2	2944.2	3374.8
Expenditures (billion of Armenian dram)	1449.1	1504.8	1447	1623	1894.3	2004.3	2243.5	2522.3	2966.7	3353.4	3795.5
Deficit (billion of Armenian dram)	-278	-267	-105.4	-63.9	-333.9	-320.5	-197.5	-167.3	-302.5	-319.7	-334.5
Revenues and grants (share in GDP, %)	23.1	22.2	22.3	23.8	25.2	24.1	24.1	24.6	25.2	26.1	28.7
Tax revenues (share in GDP, %)	21.3	20.8	20.9	22.4	22.4	22.7	22.7	23.2	24.3	25.4	27.9
Expenditures (share in GDP, %)	28.6	27	24.1	24.8	30.6	28.7	26.4	26.3	28.1	28.9	31.4
Deficit (share in GDP, %)	-5.5	-4.8	-1.8	-1	-5.4	-4.6	-2.3	-1.7	-2.9	-2.8	-2.8
Monetary sector											
Broad money (y/y, end period, %)	17.5	18.5	7.5	11.2	9	13.1	16.1	0	0	0	0
Dram broad money (y/y, end period, %)	24.8	28.9	13.2	21.5	14.8	12.8	13.4	0	0	0	0
Loans to economy (y/y, end period, %)	6	16.5	17.2	18.5	14.3	-3.9	4.5	0	0	0	0
USD/AMD (Armenian dram for one US dollar)	480.5	482.7	483	480.4	489	503.8	435.7	0	0	0	0
* From now on the Central Bank of Armenia will only present the indicator of gross fixed asset accumulation instead of gross accumulation, since the change in tangible working capital inventories is calculated by Armenia's Statistics Committee as a balancing item and it does not show the true level of gross accumulation. Please, see https://www.armstat.am/file/article/sv_04_19a_112.pdf											
** Actual indicators of public investment are the capital expenditures of the consolidated budget, and the estimates are based on a revised macro-framework, 2024-2026, available at the time.											
*** The 2023 budget indicators are the Central Bank of Armenia estimate. The 2024-2026 indicators are presented from the state Mid-Term Expenditures Framework.											

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