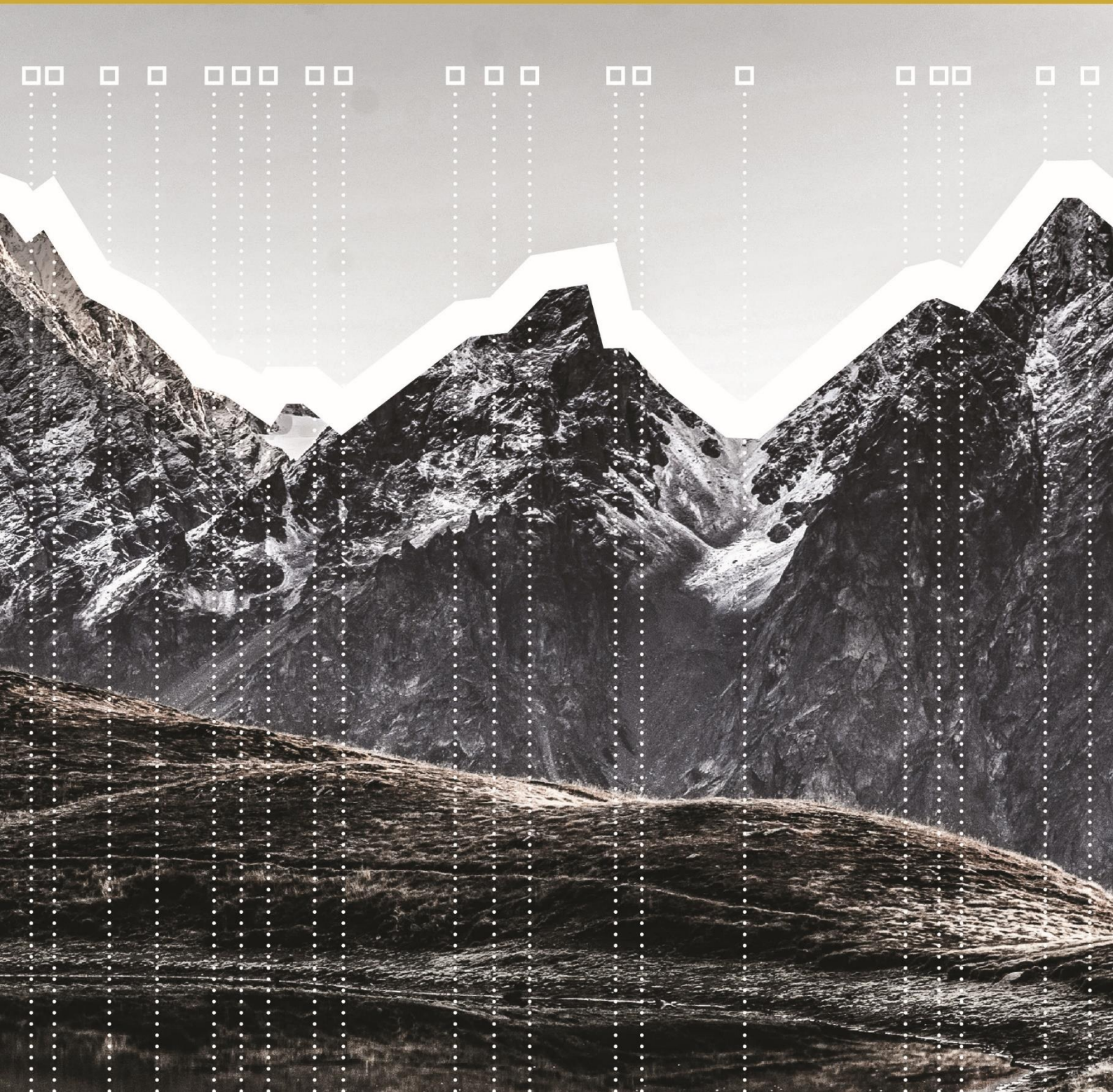




THE CENTRAL BANK OF
THE REPUBLIC OF ARMENIA

Inflation Report

2022 / 4



*Approved under the Central Bank Board
Resolution No 234A
dated 27.12.2022*

Inflation Report/4

Monetary Policy Program, Q4, 2022



*Status Report on Implementation of the Monetary
Policy Program, Q3, 2022*

The inflation targeting strategy of the Central Bank of Armenia highlights the importance of communicating of the Bank to the general public by publishing, inter alia, quarterly inflation reports.

The first section of the inflation report includes the Monetary Policy Program that provides main directions of the monetary policy in the medium-term horizon as well as scenario of inflation and other macroeconomic indicators. This is one of the observing scenarios and based on the Bank's assessment of the current situation and future assumptions by the Bank, which also include the impact of the Bank operations.

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

Publishing of inflation forecast and underlying assumptions in parallel to target inflation indicator makes monetary policy of the Bank more transparent, understandable and predictable, which considerably increases 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 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 Projection Probability distribution chart for the 12-quarter time horizon.

Presented scenario in this report is based on the actual information available by December 13, 2022, i.e., the day on which the refinancing rate was set, 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 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 2022, the slowdown of global economic activity, particularly among the main partner countries of Armenia, continues. Parallel to that, a high inflationary environment persists in the main partner countries of Armenia, mainly due to still positive developments in demand. As a result of contractionary monetary policy aimed at alleviating the high inflation in the developed countries, a certain drop of prices in international commodity markets is observed. Unlike the global economy, in Armenia high growth of economic activity is observed, which continues to be significantly supported by the high external demand in the services sector. Despite the resulting gradual weakening of inflationary effects spilled over from the external sector and certain alleviation of the domestic inflationary environment as a result of the consistent monetary policy and dram appreciation, inflation dynamics is still strongly affected by high demand and inflationary expectations.

In overall, amidst the substantial uncertainties, the Central Bank tries to mitigate the ensuing risks by constructing and reviewing different scenarios of further developments, one of which is presented in detail in this program.

The 12-month inflation remained high in the fourth quarter, totaling to 8.8% in November. According to the CBA's scenario, the actual high demand will significantly contribute to the high inflationary environment and inflationary expectations in the near future, hence the Central Bank continued to raise the policy rate at this stage too.

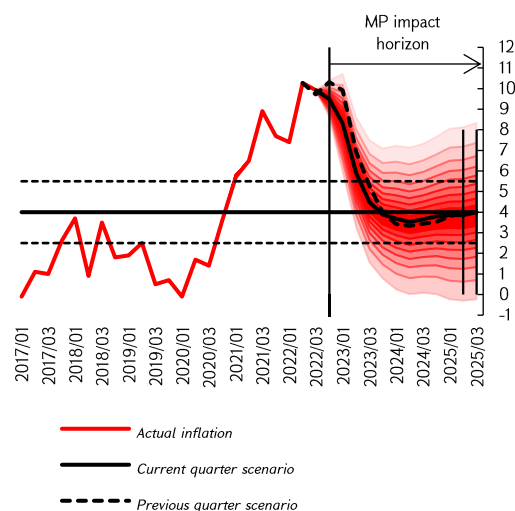
As a result of the implemented monetary policy and the expected macroeconomic developments, the 12-month inflation will gradually decrease and stabilize around the 4% target in the future.

According to the CBA scenario, high economic activity will continue in the near future, as a result of which in 2022, high economic growth close to the previous scenario is expected. In the medium term, it will gradually decrease and stabilize around the long-term equilibrium level.

The expected economic growth in 2022 will mainly be facilitated by the fairly high growth of the services and construction sectors. As a result of the demand adjustment, in the medium term the positive GDP gap will shrink and economic growth will slow down. At the end of the

Chart 1

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



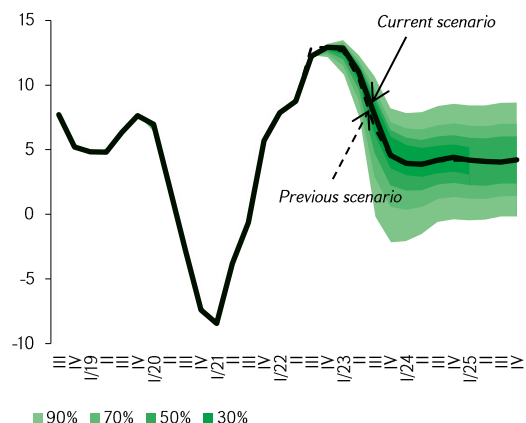
Source: NSS, CBA scenario

horizon, economic growth will be close to its long-term stable level of 4.0%.

Risks of inflation and economic growth deviating from the projected trajectory in the 3 year policy horizon are balanced (see Subsection 2.2.4). In case of emergence of risks in any direction, the Central Bank stands ready to respond adequately, in order to ensure the price stability objective.

Chart 2

Real GDP growth (cumulative) projected trajectory probability distribution for 3-year horizon



NSS, CBA presented scenario

¹ The growth rate of each quarter is calculated as the cumulative growth rate for the last four quarters.

2. PRESENTED SCENARIO, CHANGES AND RISKS

2.1. External Environment Developments

As monetary conditions in the global economy continue to tighten and disruptions in supply chains are easing, inflation is somewhat weakened. Furthermore, the pandemic restrictions and, the resulting lower demand for raw materials in China, cause a certain deflationary effect on global commodity markets. However, given the trends of "overheating" of labor markets in a number of leading economies and the high level of core inflation, it is estimated that current monetary policy conditions are not yet sufficient to fully control the inflation environment and anchor inflation expectations. Therefore, it is expected that the central banks of the leading economies will continue to tighten monetary conditions, which will be further reflected in the continuous slowdown of economic activity in the global economy.

As monetary conditions continue to tighten and disruptions in supply chains are easing in the global economy, inflation is somewhat weakened.

Central banks of the leading economies will continue to tighten monetary conditions, which will be reflected in the continuous slowdown of economic activity in the global economy.

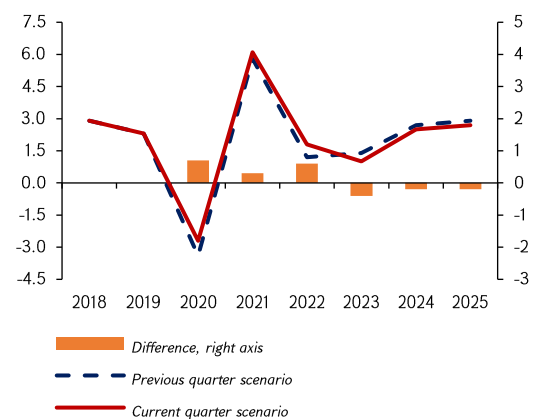
Economic Developments in the USA. Current developments in the US economy indicate a slightly higher economic growth than previously expected. Thus, according to the Bureau of Economic Analysis of the US Department of Commerce, the growth of the US economy on a year-to-year basis in the third quarter of 2022 totaled 1.9%. The growth of private consumption (services and durable goods) and investments (in non-residential construction) contributed positively to the economic growth in the third quarter. Fiscal policy continues to negatively contribute to economic growth. It is expected that in the last quarter of the current year, partly due to the continuous tightening of monetary policy, the economic growth in the USA will weaken significantly and remaining low as well in 2023, while in the medium term, along with the adjustment of economic policies, it will gradually approach the long-term sustainable level.

According to the assessment of the Bureau of Economic Analysis of the Department of Commerce, the third quarter personal consumption expenditures inflation in the USA was 6.3%, and the annual consumer price index inflation was 8.3%, slightly exceeding the expectations of the previous program.

It should be noted that certain decline in the prices of energy in November contributed to a slight slowdown in the growth of consumer prices in the USA, shaping it at the level of 7.1% y/y, and consumer inflation slowed down to 6.0% in October. Hence, inflation in the USA has evidently begun to weaken, but still remains at a high level. The high prices of food, energy and transportation services (particularly air

Chart 3

US economic growth scenarios (%)



Source: Bureau of Economic Analysis (BEA), CBA scenario

transportation) continue to contribute to the high level of inflation. It should be noted that despite a certain m/o/m weakening during the last months, the prices of services stayed at a fairly high level, with a 6.8% growth y/y. Thus, in the short-term, despite a certain decrease in the prices of energy, the high prices of the mentioned product groups, especially services, will continue to contribute to the slowdown of inflation in a somewhat slower path compared to previous expectations.

US labor market stays overheated. Unemployment in November totaled 3.7%, which, according to the assessment of the Central Bank of Armenia, is somewhat below the long-term sustainable level. Despite the significant reduction of job vacancies in August of the current year, during September-October a certain increase of this indicator was observed, as it continued to stay at historically high level (more than 10.7 million jobs). This is almost twice the number of unemployed.

Hence, despite a certain weakening of headline inflation caused mainly by supply factors, the price growth of product groups with sticky prices in the context of high demand and "overheated" labor market, is still high. Accordingly, it is expected that the US Federal Reserve will continue gradual tightening of monetary conditions, but at a slower pace, and policy interest rate will remain contractionary for a longer period of time compared to previous expectations.

Subsequently, along with the tightening of monetary and fiscal policies, the drop of prices in commodity markets, combined with the gradual recovery of global production and supply chains, inflation in the US will begin to gradually decrease in the medium term, approaching the target level at the end of the forecast horizon.

Economic developments in the Eurozone. In the third quarter of 2022, the economy of the Eurozone grew slightly faster than expected in the previous program of the Central Bank of Armenia. According to the Eurostat estimates, economic growth in the Eurozone in the third quarter of 2022 totaled 2.3% y/y or 0.3% on a quarterly basis. All components of demand contributed positively to economic growth in the third quarter, excluding net exports. The latter is caused both by the Russian-Ukrainian conflict and the weakening of the Chinese economy. It is expected that the impact of these factors on the Eurozone economy will still be felt during the upcoming quarters.

Amid the sanctions imposed on Russia, the limited possibilities of alternative sources of importing energy will have a significant negative impact on the Eurozone economy. It is expected that in case of the recovery of China's demand for energy resources in the coming year, especially in the international liquid gas market, a certain shortage of natural gas in the Eurozone will be observed, even given the reduction

of the targeted amount of domestic demand. As a result, the energy-intensive branches of the economy, the output of which has already observed a certain decrease during the last months, will suffer first. In parallel, the investments in the renewable energy will gradually restore the economy potential, which will take place at the end of the medium-term horizon of the scenario.

In order to overcome the energy crisis, a number of fiscal stimulus measures have been planned and are gradually being implemented in the Eurozone. Part of these measures will be aimed at compensating the decrease in income of final consumers as a result of the significant increase of natural gas and electricity bills, which had a certain inflationary effect.

As a result, the economic growth of the Eurozone in the current year will be within the framework of previous estimates, and the consequences of the tightening monetary policy and the energy crisis will be observed throughout the medium-term horizon of the scenario.

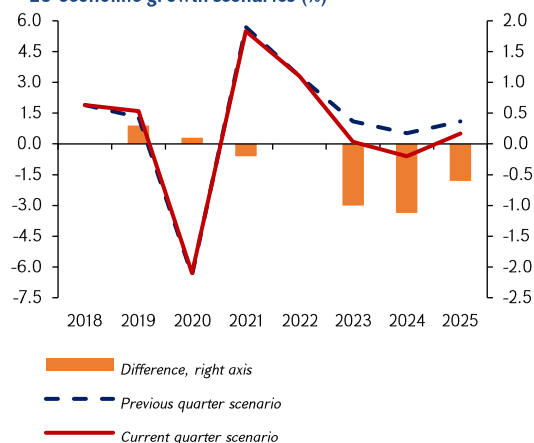
In the third quarter of 2022, 9.3% y/y inflation was observed in the Eurozone, largely determined by the high prices of oil and gas. In the fourth quarter of 2022, the acceleration of inflation in Eurozone continues, reaching 10.0% in November against 10.6% in October. In November, growth of annual inflation was recorded in almost all subgroups, except for energy (the drop of which has brought headline inflation slowdown) and services, where inflation remained at the same level. It should be noted that core inflation continues to grow. In November, the 12-month inflation, excluding energy and food, increased to 6.6%. Inflation of industrial goods and services stayed at a high level.

Thus, given the above developments, it is expected that the European Central Bank will continue to tighten monetary policy conditions, ensuring the return of inflation to its target level at the end of the forecast horizon.

Economic developments in Russia. According to estimates of the State Statistical Service of Russia, in the third quarter of 2022, the Russian economy shrank by 3.7% compared to the corresponding period of the previous year, which is slightly more positive than projected under the previous program. Agriculture, construction, housing and public catering, as well as financial and insurance sectors continued to make a positive contribution to economic growth in Russia. Developments in the manufacturing industry were of less negative nature than expected, also due to higher public procurements. On the other hand, reflecting the recent strong contraction of natural gas exports, the decline in wholesale and retail trade deepened further, reaching about 20% y/y.

Chart 4

EU economic growth scenarios (%)



Source: Eurostat, CBA projection

According to the CBA scenario, compared to the previous program, economic developments will be somewhat more positive: decline at the end of the current year will be about 3%, and 2% in 2023. This is largely due to a more expansionary fiscal policy. It is expected that both in the current year and throughout the policy horizon, the state budget in Russia will be in deficit (up to 2% of GDP in 2023)². Nevertheless, it should be noted that the increased government expenditures will be mainly of a capital nature, therefore the expected more expansionary fiscal policy will have a limited impact on inflation.

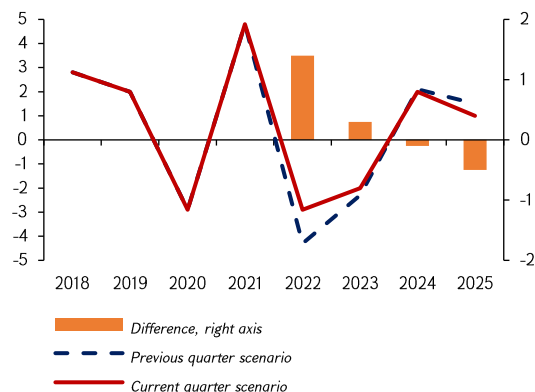
Furthermore, the ban on the import of Russian oil in the EU comes into force, together with "price ceiling" policy, according to which oil of Russian origin cannot be insured or transported by organizations or resources of the countries participating in the sanctions, if the transaction price exceeds the specified ceiling. However, it should be noted that Russian oil, having been sold for a long time at a certain discount to Brent oil, does not exceed and is expected not to exceed the set ceiling. In terms of volume, during the last quarters, significant changes have already been observed in the structure of Russian oil exports to the countries of the Asian region, which will continue in the coming months. Therefore, it is estimated that, according to the current scenario, the above-mentioned restrictions will not have a significant impact on the Russian economy, as well as on international oil prices.

As a result of the stabilization of inflationary expectations resulting from the Bank of Russia's monetary policy, the appreciating ruble and restrained demand, inflation in Russia, in line with previous expectations, continues to drop. Thus, in the third quarter of 2022, 12-month inflation was 14.4% (remaining significantly above the target level of 4%). The slowdown in inflation continued during the fourth quarter as well, reaching 12% y/y in November. It should further be noted that the m/m inflation during the last months was mostly at a level close to zero.

According to the current estimates of the Central Bank of Armenia, the Central Bank of Russia, along with the stabilization of inflation expectations and the slowdown of inflation, will continue to gradually loosen monetary policy conditions (reduce policy interest rate and/or loosen capital restrictions) ensuring approach of inflation to the target level at the end of the forecast horizon, while at the same time not harming the long-term transformation process of the economy as much as possible.

Chart 5

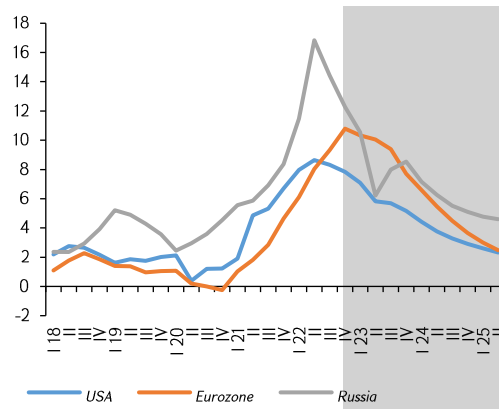
Russia economic growth scenarios (%)



Source: Rosstat, CBA presented scenario

Chart 6

Inflation in partner countries (%)



Source: BLS, Eurostat, Rosstat, CBA presented scenario

² Federal budget of Russia for 2023-2025, Ministry of Finance of the Russian Federation.

Developments in commodity markets. Along with the tightening of global financial conditions, prices in all international commodity markets continued to adjust downwards. In recent months, the weakening of demand in China has also had a significant contractionary effect on the prices of raw materials. It is expected that along with the gradual weakening of supply chain disruptions and the slowdown of global demand amid tightening financial conditions, price adjustments in commodity markets will continue in the short term.

Prices in all international commodity markets continued to adjust downwards. In recent months, the weakening of demand in China has also had a significant contractionary effect on the prices of raw materials. It is expected that along with the gradual weakening of supply chain disruptions and the slowdown of global demand amid tightening financial conditions, price adjustments in commodity markets will continue in the short term.

In the third quarter of 2022, prices on international copper market dropped as a result of the continuous global tightening of monetary conditions and economic activity restrictions in China. Subsequently, during the third quarter of 2022, the decrease in international copper prices totaled about 19% q/q, amounting to US\$ 7.7 thousand per ton. In terms of policy horizon, the expected scenario of copper prices, in the context of persisting contractionary monetary policies pursued in the leading economies, has been revised downwards compared to the previous program of the Central Bank. However, due to the gradual normalization of global demand and financial conditions, international copper prices in the medium term will somewhat grow, approaching US\$ 8.9 thousand per ton at the end of the horizon.

In the international oil market as well, due to the above-mentioned factors, during the third quarter of 2022, prices dropped by about 12.7% q/q, shaping at the level of US\$ 98 per barrel.

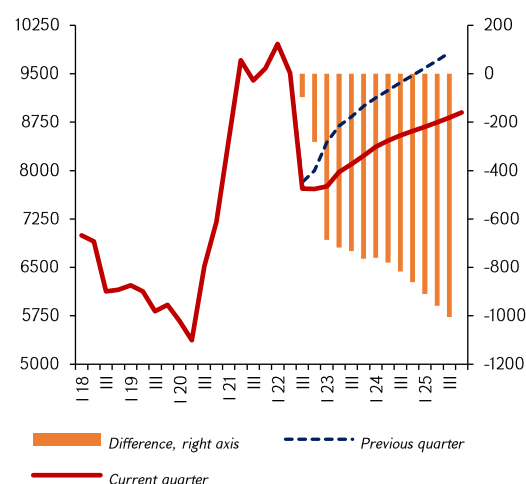
During the fourth quarter of this year, OPEC+ member states decided to reduce oil production by 2 million barrels per day from November 2022, which, according to OPEC expectations, should completely offset the expected slowdown in global demand.

The high level of uncertainty in the international oil market continues, with the resulting high price volatility. The growth of uncertainty was fueled by new sanctions applied to Russia (the ban on the import of Russian oil to the EU and the price ceiling policy), China's policy on pandemic management and the pace of economic recovery under it, as well as the effectiveness of implementation of the OPEC+ agreement on supply reduction in various member countries. As a result of all these circumstances, according to the Central Bank of Armenia scenario, in the near future oil prices will drop slightly, then grow slowly, approaching the threshold of US\$ 103 per barrel in the medium term.

Due to the optimistic expectations regarding the supply of certain commodities and weaker disruptions of supply chains on one side, and tightening of global financial conditions on the other, the prices of all

Chart 7

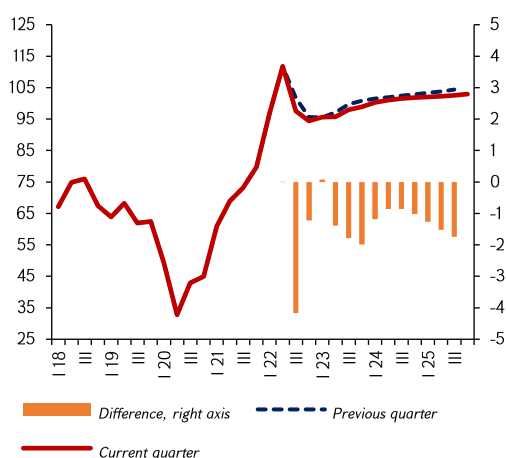
International copper price scenario



Source: World Bank, CBA presented scenario

Chart 8

International oil price scenario (US\$)



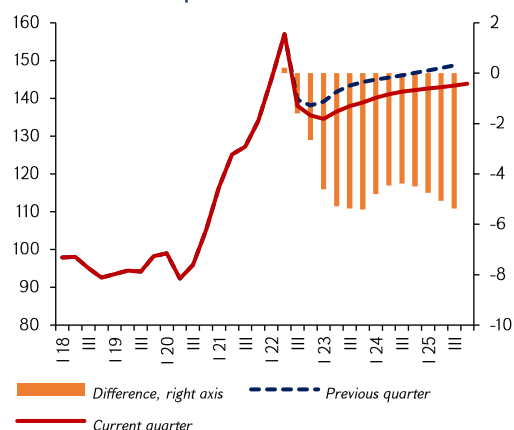
Source: World Bank, CBA presented scenario

food product groups in the third quarter of 2022 decreased, staying at lower levels than the previous estimates of the Central Bank of Armenia. This trend continues for almost all product groups during the fourth quarter of the current year as well. According to the results of November of the current year, prices of the food basket are at the levels of the corresponding period of the previous year (only about 0.3% higher). This is due to the significant drop in vegetable oil prices, more than 16% y/y, and sugar prices, about 5% y/y. The prices of other product groups are above the previous year's levels.

According to the current CBA scenario, due to the continuous tightening of financial conditions, as well as favorable conditions of supply, prices in food markets throughout the entire policy horizon will be shaped at lower levels compared to previous expectations.

Chart 9

International food price scenario



Source: World Bank, CBA presented scenario

2.2. Presented Scenario

2.2.1. Inflation and Monetary Policy

During the fourth quarter of 2022, sluggish economic growth in the main partner countries of RA is accompanied by a certain weakening of inflationary pressures, however, the high inflation environment still persists. Subsequently, central banks of developed economies will continue to tighten monetary conditions in the near future, which will contribute to the further weakening of global demand and a certain adjustment of prices in international commodity markets.

As a result of a certain easing of inflationary pressures spilled over from the external sector, the contractionary monetary policy and appreciation of dram, a certain slowdown in the growth of prices of imported goods is observed in Armenia, however, the trends of high economic activity in the domestic economy are still present. Given the existing situation, the Central Bank considers it necessary to raise policy interest rate by 0.25 percentage points.

In the fourth quarter, the high external demand in the services sector and positive developments in the construction sector continue to significantly contribute to the high economic activity in Armenia. At the same time, a short-term growth of exports and GDP potential is observed in the service and industry sectors. As a result, the gap in demand was somewhat revised downwards, but is still assessed as strongly positive, which continues to create inflationary pressures and contributes to the persistence of high inflationary expectations.

Given the existing situation, the Central Bank considers it necessary to raise policy interest rate by 0.25 percentage points.

In the current situation, the CBA Board considered feasible to raise the policy interest rate by 0.25 percentage points.

Subsequently, implemented monetary policy and gradually weakening aggregate demand will reduce inflation in the medium term, stabilizing it around the target in the second half of 2023.

The CBA Board estimates that the risks of inflation deviation from the projected trajectory are mostly balanced. In case of their emergence at any direction, the Board stands ready to respond adequately, in order to ensure the achievement of the price stability objective.

Chart 10

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

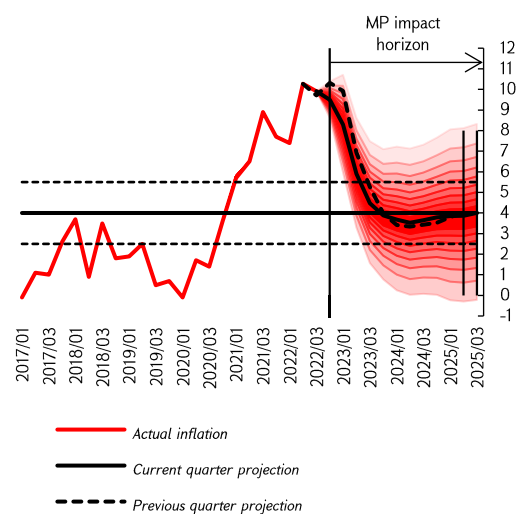


Table 1

Period	Inflation Interval Projection Probability Distribution				
	<1.0%	1.0-2.5%	2.5-5.5%	5.5-7.0%	>7.0%
Q IV 2022	0.0%	0.0%	0.0%	0.0%	100.0%
Q I 2023	0.0%	0.0%	2.4%	15.3%	82.4%
Q II	0.1%	1.5%	37.6%	35.0%	25.8%
Q III	2.4%	10.6%	57.7%	20.7%	8.5%
Q IV	6.2%	16.6%	56.5%	15.1%	5.6%
Q I 2024	9.8%	18.3%	51.7%	14.0%	6.3%
Q II	11.6%	19.4%	50.3%	12.9%	5.7%
Q III	11.0%	18.5%	50.0%	13.9%	6.7%
Q IV	11.0%	17.3%	48.1%	14.9%	8.7%
Q I, 2025	12.4%	16.5%	44.8%	15.3%	11.1%
Q II	12.7%	16.4%	44.2%	15.3%	11.5%
Q III	12.0%	15.6%	43.6%	15.9%	12.9%

Source: NSS, CBA scenario

2.2.2. Economic Activity³

Since the beginning of 2022, economic activity remained at a fairly high level. Compared to the previous program, the annual economic growth estimate has not been revised and is projected at 12.9%, but the components of economic growth have changed somewhat. Thus, external demand was revised upwards, reflecting the strong positive impact of the inflow of international visitors, funds, labor force as well as the impact of higher export rates. On the other hand, the estimate of private spending has been revised downwards, reflecting a higher growth of savings amid rising private sector disposable income. The

Since the beginning of 2022, economic activity has remained at a fairly high level. Compared to the previous program, the annual economic growth estimate has not been revised and is projected at 12.9%, but the components of economic growth have changed somewhat.

³ For a detailed economic growth estimates, see the “GDP Projection Probability Distribution”, Chart 18, Table 2.

latter contains certain risks in the near future both in terms of higher private consumption and private investments. However, given that the savings were mainly accumulated in private enterprises and that the import of capital goods grew significantly, as well as the large number of construction permits issued⁴, an acceleration of private investments is expected in the near future. Hence, private consumption⁵ will stay somewhat restrained compared to economic growth.

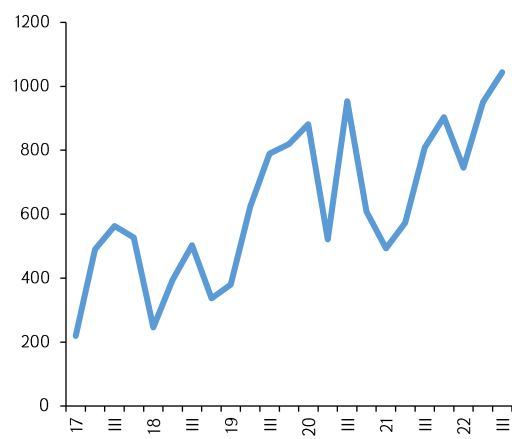
In the scenario horizon, the potential levels of GDP and exports are also projected slightly higher, mainly due to increased output in IT services and manufacturing industries. The latter were strongly supported by the inflow of capital and labor (mainly from the Russian Federation), as well as the more positive than expected developments of export and investment activity in manufacturing industry. As a result, economic growth in the medium term will be slightly higher (see Chart 2).

External Demand. Amid the sanctions applied to the Russian economy, the positive effects on the external sector of the domestic economy continued. This was manifested by the growth of the potential of exports of goods and high volumes of tourism exports. In the context of such developments in external demand, growth of exports of goods is projected to be higher compared to previous estimates. At the same time, as a result of high demand, higher growth of imports of goods and services is also projected. Hence, in 2022 contribution of net exports on GDP is projected as positive.

Against the background of ongoing restrictions on Russia, Armenia's export opportunities continue to expand, given the certain growth of exports potential. At the same time, it is expected that the export of minerals will be somewhat restored by the end of the year. As for the export of services, the large influx of international visitors will continue in the short run and a significant increase in the average expenses per tourist is expected. As a result, in 2022, the growth of real exports of goods and services will be high, at 52.0%.

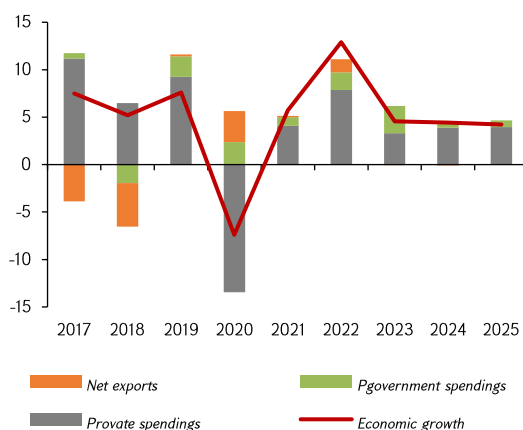
In the context of high demand and practically total lifting of pandemic restrictions by European countries, in 2022, a higher growth of around 40.0% of real imports of goods and services is expected.

Chart 11
Construction permits



Source: Yerevan municipality

Chart 12
Contribution of demand components⁶ to growth (percentage point)



Source: NSS, CBA presented scenario

⁴ *Stu'* <https://www.yerevan.am/am/quarterly-statistics/>

⁵ As a result of the significant growth in the inflow of international visitors starting from March, certain complications arose in terms of exports and private consumption assessment, as a result of which the Statistical Committee significantly revised downwards the actual private consumption indicator for the second quarter of 2022, given the increase in net exports. See https://www.armstat.am/file/article/sv_04_19a_112.pdf

⁶ Change in the stock of tangible current assets is not accounted in demand, because it is calculated by the RA State Revenue Service as a balancing item and does not reflect the real level of investments, so the economic growth calculated by supply and demand may differ.

The trends in remittances will be determined by the developments in the non-tradable sector of the Russian economy (construction and trade), where high growth in dollar terms is recorded, which according to projections, will continue in the short term. Subsequently, net inflow of total remittances (including seasonal workers' incomes and private transfers) will grow by around 32.0%.

In the context of the above developments, in 2022 the current account deficit/GDP ratio will stay almost at the level estimated in the previous scenario and will amount to 3.3%.

During 2023, the current account deficit/GDP ratio will grow compared to the previous year, totaling 4.7%. Given the high levels of exports and imports of goods and services in 2022, in 2023 stabilization trends will be already observed. According to estimates, during 2023, remittances both from Russia and the United States will decrease compared to current high levels, partially bearing the impact of lower economic activity in trade partners.

In the medium term, gradual adjustment of the high external demand will be reflected by the increase and stabilization of current account deficit/GDP ratio at the estimated equilibrium level of 4.0-6.0%.

Fiscal Policy. The impact of fiscal policy on aggregate demand in 2022 was evaluated based on the current program of the adjusted estimates of the 2023-2025 Medium-Term Expenditure Framework Program,⁷ current developments and the ensuing CBA assessments.

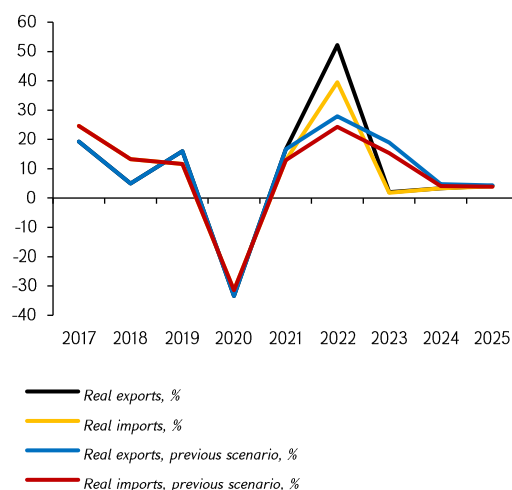
Under conditions of high actual economic growth in the last 3 quarters of 2022, the impact of fiscal policy on aggregate demand was neutral. Compared to the budget plan for 2022 shortfall of expenses was observed, while state budget revenues were overperformed. As a result, a surplus of the state budget was formed instead of the planned deficit.

Along with the acceleration of economic activity in January - September 2022, both tax collection and the state budget revenues grew at **faster rate** due to substantial economic growth and high inflation, as well as changes in tax legislation, in particular, introduction of the exports duty, which was effective until September 2022. As a result, revenues are expected to exceed the annual budget plan by around 94.7 billion dram.

According to the CBA estimates, as a result of higher GDP growth over taxes, in 2022 tax/GDP ratio will drop by 0.1 percentage point.

Chart 13

Flows of real exports and imports of goods and services in the medium term (%)



Source: NSS, CBA presented scenario

⁷ Quarterly and annual program adjusted by current Government decrees.

Compared to the plan, in January-September 2022 a shortfall of state budget expenditures was observed. In recent months, expenditures grew somewhat, as a result 97.5% fulfillment of the expenditures plan is expected in 2022, about 57.7 billion less than planned, because of the shortfall of capital expenditures.

According to the CBA estimates, in 2022, the share of expenditures in GDP will total 25.8%, dropping by 2.9 percentage points against the previous year.

Deficit/GDP ratio will total 1.7 %, down by 2.8 percentage points over 2021.

As a result, after adjusting government budget expenditures and revenues from flows that do not have an impact on gross demand, in 2022, 0.3 percentage point expansionary effect of fiscal policy is expected compared to 2021. The latter will be due to the expansionary revenue impulse and slightly contractionary expenditure impulse.

Based on the 2023-2025 MTEFP, in the medium term, the estimate of the fiscal policy is unchanged compared to the previous forecast, and a weak leveraging effect of the fiscal policy is expected due to the large capital expenditures projected for that period and a certain slowdown of the GDP growth rate. Furthermore, a gradual reduction of the budget deficit and alleviation of the debt burden is expected due to the higher tax revenues and the improvement of the expenditure structure.

Labor Market. Due to high demand and the resulting positive GDP gap, the annual unemployment is expected to remain below its medium-term level in 2022, at 13.6%. At the same time, the potential level of employment is estimated to increase at some extent due to the effects of the inflow of labor force, the decline in seasonal employment caused by unfavorable economic environment in the Russian Federation, and the growth of GDP potential. In the medium term, along with some slowdown in economic growth, the level of unemployment rate will stabilize around the estimated regular rate of 15%.

In 2022, a fairly high growth of around 18% in private salaries is expected, reflecting the impacts of the current inflationary environment and high economic activity. In the medium term, factored by stabilization of demand and inflation, the growth of private wages is expected to stabilize around 7-8%.

Thus, due to the higher growth of private wages compared to productivity, in 2022 moderate inflationary pressures from labor

In 2022, 0.3 percentage point expansionary effect of fiscal policy is expected compared to 2021.

Chart 14

Level of unemployment (%)



Source: NSS, CBA presented scenario

Chart 15

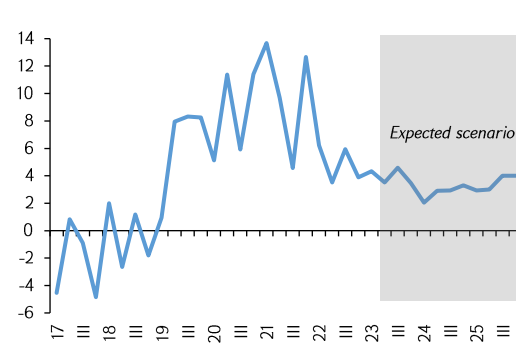
Nominal wage growth in private sector, y/y (%)



Source: NSS, CBA presented scenario

Chart 16

Unit labor costs growth, y/y (%)



Source: NSS, CBA presented scenario

market will continue in the short run. Accordingly, the growth of unit labor costs during the year will be around 5.0%, however, in the medium term, it will stabilize in the range of 4%.

2.2.3. Comparison with the Previous Scenario

In the presented scenario, estimation of economic growth for 2022 have not been revised.

Economic growth in 2022, as in the previous program, is estimated at 12.9%. Economic growth will mainly be contributed by the substantial growth of services and construction sector.

Higher growth is expected in the main contributing sectors for the year, mainly due to the growth of external demand resulting from the inflow of international visitors and the high output of the sector. In addition, the growth of the services sector will be strongly contributed by the expected high growth in the financial and IT sectors. Growth in these sectors will positively help maintaining a higher level of potential GDP in the medium term.

In the construction sector, a higher growth compared to the previous scenario of the Central Bank is expected, driven by higher-than-expected housing construction. The construction is mainly carried out at the expense of organizations and it is expected to stay at a high level in the near future.

The growth in the agricultural sector has been revised downwards, both as a result of the actual developments and the expected decline caused by the reduction of cultivated areas.

Compared to the previous scenario, the growth of the industry sector has been somewhat revised upwards. The growth of this sector will be driven by the high growth of the manufacturing industry, mainly driven by the increased export and production potential in the food sector.

In the medium term, the positive GDP gap will close and economic growth will slow down as a result of adjustment of the high demand. However, the medium-term economic growth estimate has been slightly revised upwards taking into account higher GDP potential due to higher productivity growth. At the end of the horizon, economic growth will be close to its long-term sustainable level of 4.0% (Chart 16):

Chart 17

Real GDP growth (cumulative) projected trajectory probability distribution for 3-year horizon

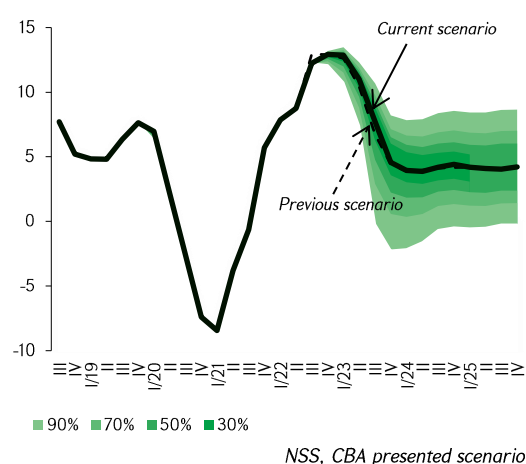
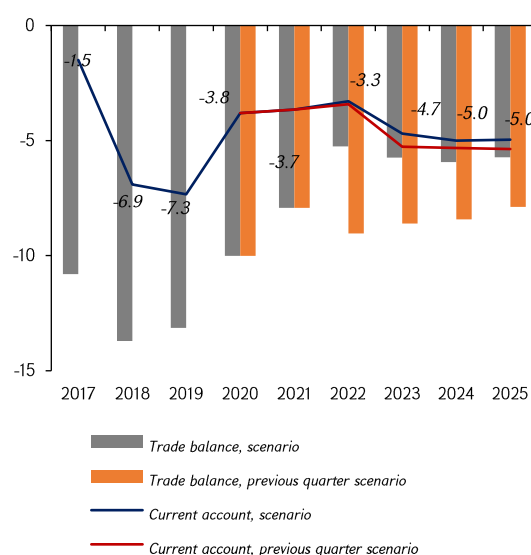


Chart 18

Current account/GDP medium-term expected scenario (%)



⁸ The growth rate of each quarter is calculated as the cumulative growth rate of the last 4 quarters.

Table 2

<i>Probability Distribution of Real GDP Growth (Cumulative) Projection</i>		
Period	30% Probability Interval	90% Probability Interval
2022 January-December/ 2021 January-December	12.7 – 13.0	12.1 – 13.2
2023 January-December/ 2022 January-December	3.6 – 6.0	(-2.2) – 8.2
2024 January-December/ 2023 January-December	3.3 – 5.4	-0.5 – 8.6
2025 January-December/ 2024 January-December	3.2 – 5.2	-0.2 – 8.6

Source: NSS, CBA projection

In 2022, current account deficit/GDP ratio will remain at the level of the previous scenario: as a result of the high growth of foreign demand, improvement of the trade balance and the large values of private transfers will offset the highly negative balance of investment income.

Compared to the previous scenario, fiscal impulse will have an expansionary effect of about 1.2 percentage points: in case of full implementation of the adjusted tax program and 97.5% (CBA estimation) execution of the adjusted expenditure program the revenue is expected to have expansionary and the expenditure-neutral impacts.

According to the current scenario, general inflation in the short run will be lower compared to the previous program, mainly due to the lower level of core inflation and regulated services. The current high level of natural inflation will decline due to the effects of external spillovers, as well as weakening inflationary pressures as a result of the slowdown in domestic demand. Accordingly, compared to the previous program, inflation in the near future will be at a lower level, and in the medium term it will decrease and from the end of 2023 will stabilize around the target level (see Chart 1).

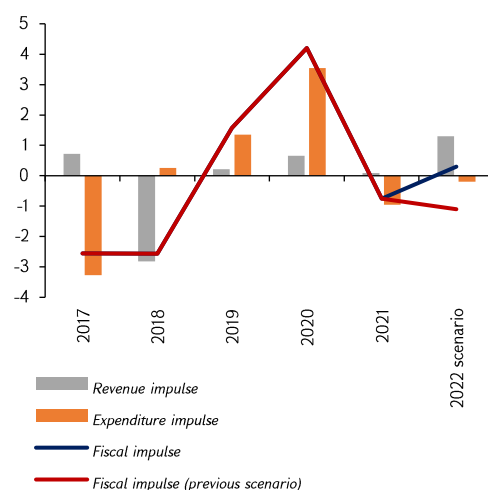
Short-term inflation expectations are around the previous estimate, mainly due to the high demand in the domestic economy, which is in line with the household surveys, according to which inflation expectations are still high (see Box 1)

2.2.4. Main Assumptions and Risks

This section presents the main assumptions underlying the Monetary Policy Program for the fourth quarter of 2022, and the risks to implementation of the program coming from external sector developments, fiscal policy, emerging trends and short-term projections.

Chart 19

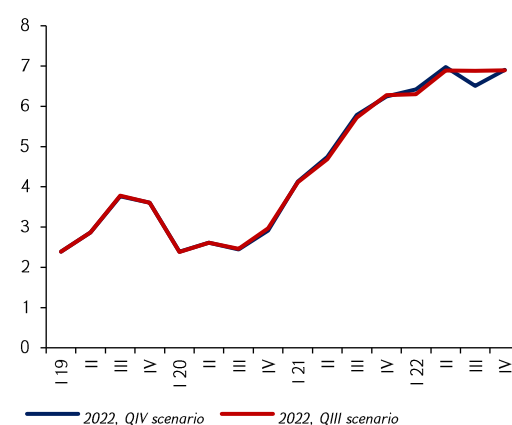
Fiscal impulse scenario (percentage point)



Source: CBA assessment

Chart 20

Short-term inflation expectations (%)



Source: CBA assessment

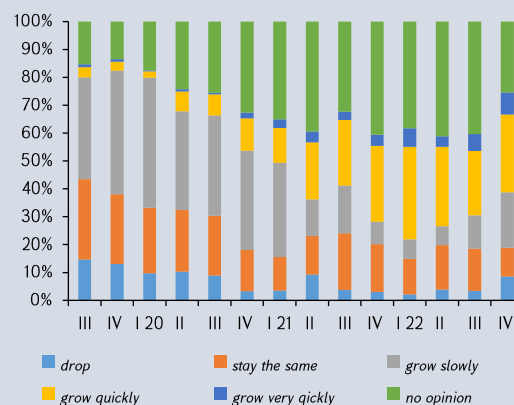
Box 1

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

According to households' survey conducted by the Central Bank on expectations in terms of various macroeconomic indicators in Q4 2022, inflationary expectations still remain high. In particular, the share of households expecting high inflation for the one-year horizon in the structure of the surveyed households has somewhat increased, although the share of those who expect low inflation has also increased, which shows that in the fourth quarter, the respondents' uncertainties regarding the expected inflation decreased, some of which serve as an evidence of high, while the others low inflation expectations.

Chart 21

Household inflation expectation surveys



Source: CBA

Scenario Assumptions

Table 3

Main Findings and Assumptions	Possible developments if these assumptions prove to be correct
Sanctions imposed on Russia will remain throughout the scenario horizon.	✓ Impact of the ban on the import of Russian oil to the EU and application of the price ceiling policy on the volume of oil production in Russia, and therefore on the supply of oil on global market will be small.
At the same time, supply chain disruptions will continue to mitigate.	✓ Among the main trade partners of Armenia, economic growth in the USA and the Eurozone will continue to weaken; economic decline in Russia will be smaller mainly as a result of a smaller decline in the industry.
Among the main partners of Armenia, the US FRS and the European Central Bank will continue to toughen monetary conditions. Inflation in the mentioned countries will return to the target levels at the end of the scenario horizon.	✓ Downward price adjustments in commodity and food markets will continue; in the medium-term prices will form at lower levels than previously expected. As a result of corresponding supply reductions, the adjustment in international oil market will be smaller.
"The energy crisis" will have a stagflationary effect in the EU, and additional fiscal stimulus packages, somewhat mitigating the slowdown in economic activity, will be inflationary.	✓ Among trade partners of Armenia, inflation in the USA and EU will bear the effects of drop in commodity prices.
Fiscal policy in Russia will be more expansionary throughout the scenario horizon.	
The agreement to reduce oil production by 2 million b/d from November 2022, approved by OPEC+ member countries, will be effectively maintained.	

Armenia's country risk premium will be at a lower level, due to certain downward risk adjustment in the developing economies in general, as well as a significant reduction of the debt burden amid the high economic growth and dram appreciation in Armenia.	✓ It is expected that along with current trends, the country's risk-premium will continue to decrease, but at a slower pace and will approach a long-term steady state level at the end of the horizon.
The impact of fiscal policy in 2022 is expected to be expansionary from revenue side and contractionary from expenditure side.	✓ According to estimates, given implementation of the annual tax revenue program and 97.5% performance of the adjusted expenditure program, in 2022 fiscal policy will have an expansionary effect of about 0.3 percentage points. ✓ According to 2023-2025 MTEFP, in the mid-term a slight expansionary effect of the fiscal policy is expected due to the growth of budget revenues factored by decrease in the deficit.
Amid the ongoing sanctions on the Russian Federation, Armenia's export opportunities will continue to expand, also given a certain growth of export potential.	✓ In the short term, positive developments in the manufacturing sector will continue, including some expansion of the output capacities. ✓ Continuing high growth in information and communication sector in the short run, which will have positive impact on the GDP potential in 2022-2023. ✓ As large flows of international visitors continue, positive external demand shocks will sustain.
A certain negative contribution of the extractive industries to the growth of the GDP potential.	✓ Suspension of Teghut mine operations until the third quarter, inclusive, with subsequent restoration of the previous level of production and export. The closure of the Teghut mine will have around 1.1% negative contribution to industry in one quarter.
Changes in excise and customs rates by 2023 deriving from the requirement to apply common rates in the EEU.	✓ The annual impact of the gradual excise tax change expected in 2021-2023 is estimated at about 0.4 percentage point, and the impact of the change in customs rates at 0.3 percentage point for each year.
Reducing the electricity tariff.	✓ According to the presented scenario, in the first quarter of 2023 electricity tariff is expected to decrease by up to 6.5%, with estimated deflationary of around 0.3 percentage points.

Source: CBA

Scenario Risks

As a result of the Russian-Ukrainian conflict and the large-scale sanctions imposed on Russia, the high level of geopolitical uncertainties in the region persists, creating significant risks in terms of growth of potential in Russia, overcoming of the energy crisis in the Eurozone

and the prospects of economic growth. Developments in China's economy, related to the problems in the real estate market and the government's policy of strict response to pandemic waves, as well as the abandonment of that policy, cause further significant uncertainties in terms of future developments in global demand. In general, these factors continue to create risks and challenges in terms of stabilizing the global economy, ensuring regular operation and recovery of international commodity, food and financial, markets and the supply chains that have been disrupted before. As over a long time global inflation rates are significantly above the target levels, the risks of deanchoring of the long-term inflationary expectations persist. To this end, central banks of many countries are conducting or signaling a policy of quick tightening of monetary conditions. A significant portion of risks is linked with the uncertainties regarding the speed of tightening of the monetary policy by the FRS, leading to growth of volatility in global financial markets and a significant adjustment of asset prices.

These developments obviously create high uncertainty and significant risks for the RA economy as well. Further to the risks ensuing from the outside world, there are also risks related to the large-scale military aggression of Azerbaijan. These factors are still manifested through wider ranges of ambiguity around the forecasts of the central points of inflation and other key macro-indicators (See Charts 1 and 2): Accordingly, amid high uncertainties, only the most significant risks around the baseline scenario are presented below.

In terms of aggregate demand, the following risks stand out:

- The risks of a slowdown in external demand are mainly related to a possible sharp decline in the Chinese economy, which may have a deflationary effect on the international prices of food and inputs.
- The risks related to increased inflation and economic growth in the EU derive from developments in energy prices, under which the ECB will be consistent in mitigating the risks of deanchoring inflationary expectations.
- In the context of current regional geopolitical developments, there are mainly positive demand risks in terms of the expected inflow of international visitors and financial flows and their contribution to the national economy.
- Slowing down of seasonal migration from Armenia due to the unfavorable economic environment in the Russian Federation and restrictions on capital flows, which creates risks in terms of slowing down consumption on one hand and increased labor supply on the other.

- Fiscal policy related risks are mainly caused by the weakening of restrictions arising from the fiscal rules as a result of the significant reduction of the debt/GDP ratio, and the expansion of the inflationary environment as a result of potential significant growth of government expenditures.
- In the environment of significant positive demand, difficulties arise in attracting additional labor and resources, causing risks of non-linear effects on inflation.
- In the context of persisting inflation significantly above the target level, risks associated with deanchoring of long-term inflation expectations and the emergence of an inflation-wage spiral remain.
- Inflationary risks associated with acceleration of consumption against the background of accumulated savings in the private sector.

In terms of supply, the following inflationary risks stand out:

- Risks pertaining to commodity and food price projections related both to the scale of the global economic growth slowdown, and the possible disruptions in supply chains and regular supply in international markets as a result of continuous sanctions against Russia.
- Amid the persisting geopolitical tension, there are risks of deglobalization and inflationary risks arising from it.
- Commodity market imperfections and biased inflation and exchange rate expectations bring about risks of inflationary nature relating to disproportionate passthrough of dram appreciation to prices of imported goods.
- The ongoing tension at the RA border and political uncertainties, result in inflationary risks related to excessive response of financial markets and the increase of Armenia's country risk-premium.

As a result, risks of inflation deviation from the forecast in the medium term are estimated to be balanced, and in general high quantitatively (see Chart 1).

Further to the above-mentioned inflation risks, there are other potential medium-term risks in term of economic growth of bilateral nature, where upward risks somewhat prevail. In particular, risks are related to the following internal and external factors:

- Uncertainties related to the development of the Amulsar mine and Alaverdi copper smelter, which pose an upward risk.
- Significant difficulties and disruptions in the activities of local companies with Russian capital, which will have a negative impact on the economic growth in Armenia.

- Both positive and negative risks related to the nature, size, duration of capital-financial flows to the RA economy and the possible transformation of the economy.
- Risks related to the effectiveness of execution of capital expenditures outlined in the medium-term budget expenditure plan.
- Negative risks related to ongoing tension at the RA border and political uncertainties.
- Positive risks associated with acceleration of investments as a result of accumulated savings in the private sector.
- Implementation of the € 2.6 billion EU Eastern Partnership assistance package implying an upward risk (annual GDP growth of 0.9-1.0%).

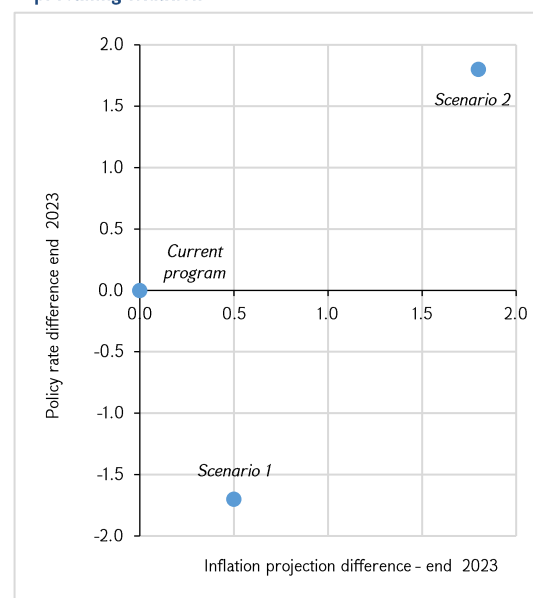
In general, as significant uncertainties remain related to geopolitical situation, coronavirus, deglobalization, global supply chain rearrangements and possible financial and economic developments, the Central Bank seeks to reduce the potential risks arising from these uncertainties by modeling and evaluating different scenarios of further developments. In particular, given the peculiarities of the current stage and the possible emergence of various types of risks, two scenarios of economic developments have been considered in greater detail:

- Due to the reduction of uncertainty about the main drivers of economic growth (international visitors, financial inflow) and their future developments savings accumulated in the private sector will lead to a strong growth of private investments, which will significantly increase the potential growth opportunities of the economy and, as a result of the growth of supply, adjust the existing imbalances of supply and demand and quickly and significantly alleviate inflationary pressures in the medium term. In the short term, however, it will have some additional inflationary impact due to additional demand for investment goods and labor force (Scenario 1).
- Long-term high inflation environment and high inflation expectations may lead to deanchoring of inflation expectations and harm the Central Bank reputation, raising the cost of reaching the inflation target. As a result, in order to ensure the stability of inflation, the Central Bank will need to implement a longer and stronger tightening of monetary policy (Scenario 2).

Under these scenarios, the options of respective policy response were considered, with the view to taking adequate steps at the very first evidence of their emergence.

Chart 22

Possible scenarios of economic development in the prevailing situation



Source: CBA expected scenario

3. ACTUAL DEVELOPMENTS IN QIII, 2022

3.1. Inflation

3.1.1. Fulfillment of the Inflation Target

Under the basic assumptions of the scenario presented in the 2021, QIV program, as a result of the monetary policy implemented in the next one-year period, inflationary environment would weaken somewhat, still remaining high due to the ongoing global positive developments in demand combined with the factors of persisting value chain disruptions and limited supply. According to the projections, as a result of the gradual adjustment of the mentioned factors, in the medium term, the 12-month inflation would decrease and stabilize around the 4% target.

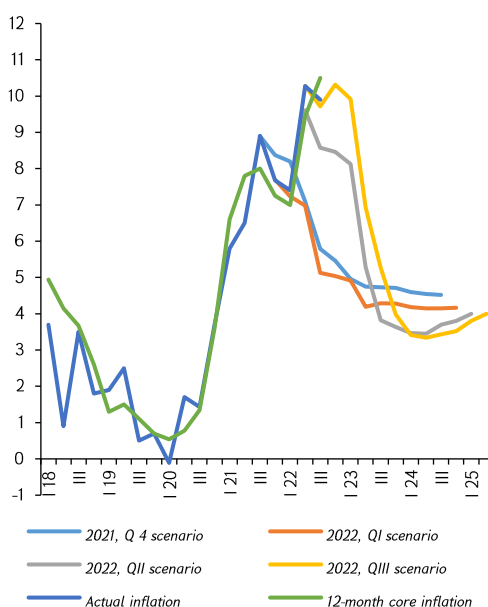
In line with the expectations, in the reporting period until March 2022, the 12-month inflation gradually decreased and already in February dropped to 6.5%, with a trend to approach its target level in the near future. However, geopolitical developments since the end of February caused a significant expansion of the inflationary environment and a much higher-than-expected inflation was observed. In view of this, in the second and third quarters, the projected path of inflation for the short-term period has been adjusted upwards.

Throughout October 2021 - February 2022, the recovery of global economic activity and external demand continued at a faster pace. In general, inflationary factors in Armenia persisted under the impact of inflationary effects still transmitted from the external sector and a certain positive environment of aggregate demand shaped amid the high energy prices and disruptions of supply chains. The latter was strongly contributed by the high growth, especially in domestic services, which in turn, was affected by the higher-than-expected growth of tourism. At the same time, while a certain decrease in the 12-month inflation rates was observed since the end of 2021, as a result of the persisting inflationary effects and the expected changes in the prices of regulated services, the level of public inflationary expectations remained high. In view of these developments, the Central Bank continued raising policy rate by a total of 0.75 percentage points.

In the first three quarters of 2022, macroeconomic environment in Armenia and inflationary developments in particular, were greatly affected by the Russian-Ukrainian conflict, which intensified since the end of February, various sanctions applied to the Russian economy and the ensuing unprecedented uncertainties. The latter were manifested by a significant slowdown of the economic growth in the main partner

Chart 23

At the beginning of the period under review, the 12-month inflation dropped in line with the outlined path, but climbed up from March. Subsequently, the short-term scenario for that period was revised upwards



Source: NSS, CBA

countries of RA, as well as extraordinary high inflation in international energy and commodity markets as a result of disruptions in supply chains. The negative impact of such developments on the domestic economy was mainly reflected in a certain decrease of the short-term economic activity, and the high prices on certain imported products in Armenian commodity market. At the same time, as a result of the Russian-Ukrainian conflict, a significant growth of volatility of domestic financial market and the country's risk-premium was observed in the short term, which in turn contributed to a certain rise of inflationary expectations and inflationary risks. Starting from the second quarter of 2022, a significant acceleration of the economic activity was observed, mainly due to the high growth of the service sector driven by the extensive flow of international visitors and tourists and large-scale remittances. Thus, factors of external demand on domestic services had a decisive role for the high economic growth. Positive developments were also observed in the field of exports in IT and processing industries. Subsequently, as a result of the significant growth of foreign exchange supply and the demand for AMD in financial market, the AMD has significantly appreciated.

Under such developments, the Central Bank raised policy rate by 2.0 percentage points in March-September 2022. Notably, the Central Bank tightened monetary terms by a relatively large step of 1.25 percentage points in March, in response to the high inflationary environment caused by geopolitical developments. In the second quarter, the Central Bank refrained from changing the interest rate, given the expectations of a gradual weakening of the inflationary effects due to the appreciation of the Armenian dram in parallel with the increase in foreign demand. Furthermore, a relatively large tightening of monetary terms in the first quarter of 2022 deemed a sufficient response to further alleviation of the high inflation environment. In the third quarter, despite some weakening of the inflationary effects on the domestic economy from the external sector, the Central Bank consistently tightened monetary conditions and raised policy rate by 0.75 percentage points taking into account the larger than expected growth of demand in the domestic economy amid the ongoing large inflow of international visitors and tourists and remittances, with the resulting projections of the inflationary environment expansion and persisting high inflationary expectations.

To sum up, inflationary environment has softened somewhat since the end of 2021, and in February 2022, the 12-month inflation dropped to 6.5%, however, due to the emerging new factors, it grew again in the second and third quarters of this

year, making 9.9% in September. Policy rate in the reporting period was raised by 2.75 percentage points in total, and was set at 10.0% in September 2022.

It is estimated, that as a result of consistent monetary policy, inflation during the 3-year forecast horizon will gradually decline approaching the target of 4% in the medium term.

3.1.2. Prices

At the beginning of the reporting period, a certain weakening of the inflation environment was followed by a sharp acceleration of inflation, reflected also in the dynamics of core inflation, still contributed by the inflation of imported food and non-food products, as well as the high demand in the RA economy. Thus, spill-over effects from international markets resulted in a sharp growth in the prices of “Bakery and Cereals”, “Meat Products”, “Oils and Fats” and “Sugar” commodity groups in the domestic economy. Furthermore, the growth of international energy prices affected domestic fuel prices. The sharp growth of international freight prices is also notable, as it had a direct impact on inflation of imported goods (in particular, electrical appliances, clothing and footwear, as well as personal care items). Furthermore, appreciation of the Armenian dram from the third quarter of 2022, in parallel with higher foreign demand, had a significant restraining effect on the growth of prices of imported goods. As a result, the 12-month increase in dram prices of imported food products at the end of the reporting period totaled 14.7%.

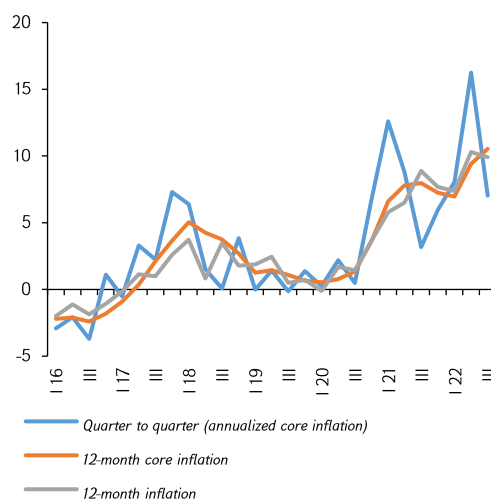
At the same time, the acceleration of aggregate demand due to the inflow of international visitors to Armenia has intensified inflationary pressures on local goods and services market, under which the prices of a number of services with relative price rigidity (apartment rent, restaurants and hotels, hairdressing, financial and postal services) have been adjusted. Notably, the growth of inflationary expectations and uncertainties caused additional inflationary pressures, especially on essential items.

Growth of prices of “Tobacco” and “Alcoholic Beverages” product groups, in line with the estimates, continued to be affected by inflationary impact of the change of excise tax rates at the beginning of the year.

In addition to the above-mentioned factors, low deflation of seasonal food products, not typical for the season, has significantly contributed to the acceleration of inflation. In particular, low deflation of vegetable

Chart 24

Some mitigation of the inflationary environment in the reporting period was followed by inflation skyrocketing



Source: NSS, CBA

prices was mainly the result of the reduction of sown areas for certain crops and the growth of exports. In the third quarter of 2022, the impact of those factors on inflation diminished, however, because of the unfavorable weather conditions a high growth of fruit prices was observed, at the end of the reporting period.

Tariffs of the regulated services in the first half of 2022 grew strongly because of the increase of water supply tariffs since January, electricity since March, and natural gas supply since April.

Table 4

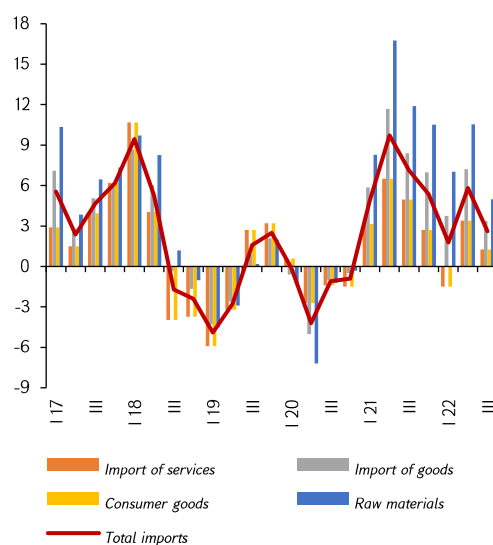
Consumer price inflation by commodity items as key contributors			
<i>Designation</i>	<i>Weight</i>	<i>12-month inflation as of September 2022</i>	<i>Contribution to inflation</i>
Core inflation	75.1	10.5	7.9
Bread and cereals	8.1	19.4	1.6
Meat	9.0	11.9	1.1
Oils and fats	2.6	7.5	0.2
Sugar	0.5	1.1	0.0
Dairy products	4.2	20.8	0.9
Alcoholic beverage	2.4	9.0	0.2
Tobacco	1.4	8.7	0.1
Clothing	1.3	10.5	0.1
Footwear	0.8	9.2	0.1
Household appliances	0.6	7.4	0.0
Fuel	6.8	7.0	0.5
Air passenger transportation services	0.6	49.9	0.3
Actual rent paid by the lessee for additional accommodation	2.7	2.6	0.1
Restaurants and hotels	1.0	48.7	0.5
Fees for services of banks, post offices	1.0	8.6	0.1
Imported food	0.6	15.7	0.1
Seasonal food	14.8	14.7	2.2
Eggs	9.4	8.3	0.8
Fruits	1.3	-19.1	-0.2
Vegetables	3.2	21.0	0.7
Regulated services	4.9	4.3	0.2

Source: NSS

Import prices In the third quarter of 2022, a decrease in the prices of food products was recorded in the world economy, which was reflected by a decrease in the dollar prices of imports of Armenia.

Chart 25

In 2022 QIII, the growth of US dollar prices on imports of goods and services plummeted over the same quarter of the previous year, y/y, %



Source: CBA estimates

Dollar prices of imports of intermediate consumption goods, final consumer goods, and services dropped. Thus, compared to the previous quarter, during the third quarter the dollar prices of imports dropped by 2.2%, and subsequently, the price growth plummeted sharply compared to the same period of the previous year, and totaled 2.6% y/y, which was mainly driven by the still high levels of oil and wheat prices. At the same time, the y/y price growth of almost all imported intermediate consumption goods plummeted. In terms of consumer goods, contribution of dollar prices was negligible.

According to estimates, the decrease in the dollar prices of imports, in the context of dram appreciation was expressed by slower growth of prices of imported goods included in the consumer basket compared to the previous quarter.

3.2. Economic Developments

3.2.1. Economy Position

During the reporting period, the GDP gap was somewhat revised downwards, but remained in a significantly positive range.

In the third quarter of 2022, economic growth totaled 14.8% (see section 3.2.3), slightly lower than the estimate of the previous CBA program, but remained at a high level. The main driving force of high growth continues to be the high external demand in the service sector. At the same time, growth in export and GDP potential is observed in the sectors of services and industry. As a result, the GDP gap was slightly revised downwards compared to the previous estimates, but still stays in a significantly positive range and affects inflation dynamics. The latter is mainly reflected by the growth of inflation in services sector. However, general inflation has been moderated to a certain extent by the slowdown in price growth of imported food products as a result of contractionary monetary policy, dram appreciation, and external spillovers.

In the third quarter of 2022, economic growth totaled 14.8%.

3.2.2. Expenditure Side of the Economy

In terms of demand, both private and public expenditures and net exports contributed positively to economic growth, but the latter's influence increased considerably in the third quarter of 2022.

NSS also revised net export index to upward direction for the second quarter, yet private consumption was revised in downward direction.

The growth of private expenditure in the reporting quarter was 6.4%, which is quite below the previous projection of the Central Bank. The difference stems from the lower level of both private consumption and aggregate private fixed capital accumulation. At the same time, disposable incomes of the private sector grew significantly driven by economic growth (see section 3.2.3) and relatively high growth of remittances (see section 3.2.2), which is also reflected by the growth in the level of savings. The CBA analysis shows that the growth of savings has been stronger among enterprises, which are still delaying investments amid uncertainties regarding the main drivers of current economic growth (international visitors and financial inflows). Nevertheless, private funded construction remains at a high level.

In the third quarter of 2022, as a result of the continued high external demand and the growth of domestic economy income, the real growth of exports and imports exceeded expectations. Under the restrictions on exports from other countries to the Russian Federation, a high growth of exports from Armenia to Russia was observed, amid certain weakening of the previous competitive environment in markets and the opening of new niches.

With the unprecedented high growth of international visitors, tourism developments have exceeded expectations. At the same time, driven by high demand, the growth in imports of goods and services also exceeded expectations. Thus, in the third quarter of 2022, the growth of real exports of goods and services totaled 69.5% y/y, and in terms of real imports of goods and services it reached 45.2% y/y.

Summing up, contribution of net real exports to GDP in the third quarter was positive.

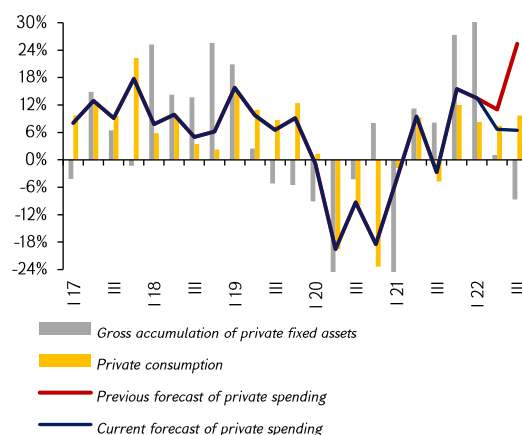
According to estimates, increase in the dollar value of net remittances (seasonal workers income and personal transfers) in the third quarter of 2022 was around 36.5%. The latter is due to the high activity and high growth of dollar income generated in the nontradable sector of the Russian economy.

Fiscal Policy⁹. Compared to the presented CBA scenario, actual budget revenues in the third quarter of 2022 shifted in the direction of surplus and expenditures - the shortfall. Subsequently, compared to the projected 0.6 percentage point expansion for the quarter, the estimated impact of fiscal policy on aggregate demand was contractionary.

⁹ The review of the fiscal sector was based on the actual consolidated budget indicators at the third quarter.

Chart 26

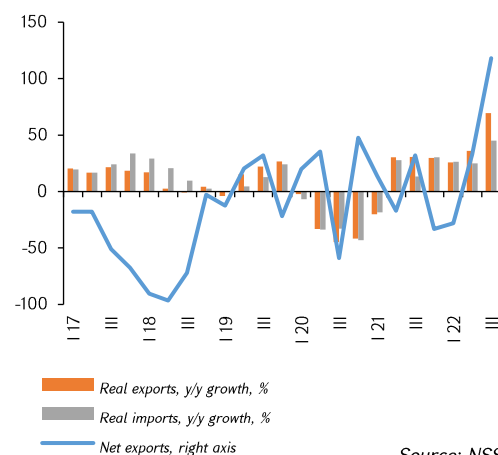
Private spending structure (y/y growth)



Source: NSS, CBA estimates

Chart 27

In 2022 QIII, net exports position improved significantly (net real exports, y/y, %, positive sign - improvement)

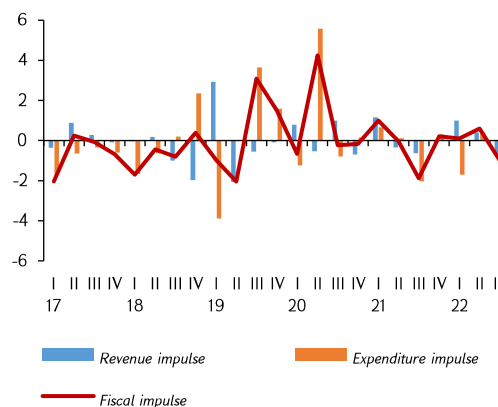


Source: NSS

Compared to the projected 0.6 percentage point expansion for the quarter, the estimated impact of fiscal policy on aggregate demand was contractionary.

Chart 28

Fiscal policy in the third quarter of 2022 had a neutral impact over the previous quarter



Source: CBA estimate

Budget revenues in the third quarter of 2022 accounted for 105.7% of the CBA's projections mostly due to the surplus of other revenues. Other revenues exceeded the CBA projections about 1.8 times, mainly due to higher revenue from interest payments on use of temporary free funds of the budget.

Driven by the economic growth and inflation recorded since the beginning of the year, tax revenues of the state budget also exceeded the programmed level.

As a result, earnings impulse was at 0.7 percentage point expanding, which is in line with expectations.

State budget expenditures in the third quarter totaled 98.9% of the Central Bank previous scenario. Subsequently, expenditure impulse was at 0.7 percentage point containing over the previous quarter instead of the projected 0.6 percentage point. Within the state budget, expenditures on non-financial assets fell short of the plan. Expenditures on non-financial assets underperformed, while current expenditures somewhat overperformed compared to the Central Bank projections.

Thus, due to the above-mentioned developments of incomes and expenses, a deficit of 3.1 billion drams was formed in the state budget in the third quarter (budget funds planned in internal sources of financing almost corresponded to the needs). As a result of the above-mentioned revenue and expenditure developments, the state budget had a deficit of 3.1 billion drams in the third quarter (budget planned financing from internal sources almost covered the actual needs). At the same time, consolidated budget deficit totaled around 28.1 billion.

3.2.3. Output Side of the Economy

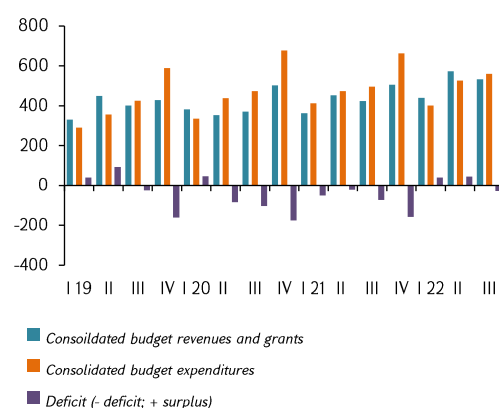
Economic growth in 2022, QIII, totaled 14.8%, somewhat lower than projected earlier by the Central Bank. The growth was mainly contributed by the services sector where it totaled 19.1% mostly due to the external demand. Other major contributor of the growth in services sector was financial and insurance activities and information and communication sectors.

Compared to the previous scenario from very low to almost zero growth was recorded in the agricultural sector, as a result of the outpacing growth of intermediate consumption compared to output, leading to a drop of value added.

11.1% growth in the industry sector was mainly supported by the manufacturing industry due to the increase in output and export potential of the food production sector factored by investment activity.

Chart 29

Dynamics of selected indicators of the consolidated budget (AMD billion)

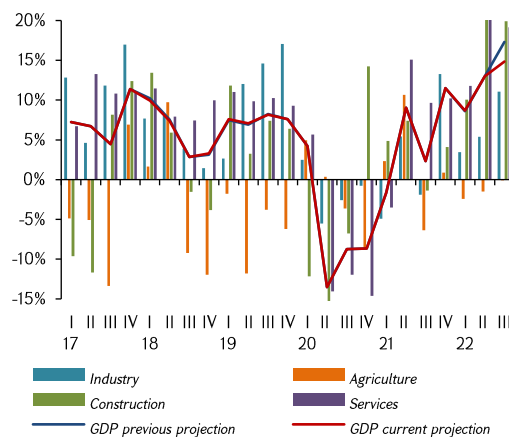


Source: NSS

Economic growth in 2022, QIII, totaled 14.8%, with the main contributor being the services sector.

Chart 30

GDP sectoral structure (y/y growth, %)



Source: NSS, CBA estimates

19.9% growth of the construction industry was in line with the Central Bank projections. The main contributor is still private funded housing.

3.2.4. Labor Market

In the third quarter of 2022, the unemployment is estimated at 13.5%, which is lower than the previous estimate of the Central Bank. The decrease in the level of unemployment is mainly due to the growth employment in the context of the sustained high economic activity.

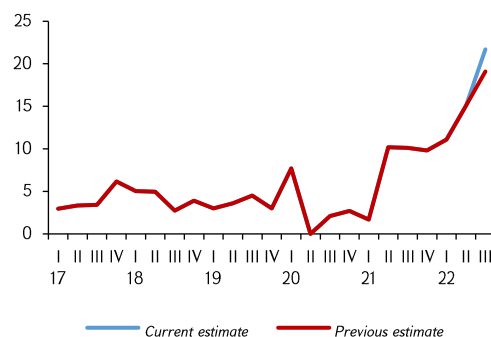
In the third quarter of 2022, the growth of nominal wages in the private sector was quite high compared to the Central Bank projections totaling 24.8%. Wages grew mainly in the services sector (particularly in the IT and financial services industries), in line with strong output growth. Fueled by the high inflation, the growth of real wages in the private sector totaled to 10%.

Thus, the high growth of private wages and the decrease in the unemployment are evidences that signal of persistent high demand, which is in line with the positive GDP gap in the reporting period.

As a result of some increase in unit labor costs small inflationary pressures from labor market persisted in the third quarter reflecting the outpacing growth of private wages over the output per employee.

Chart 31

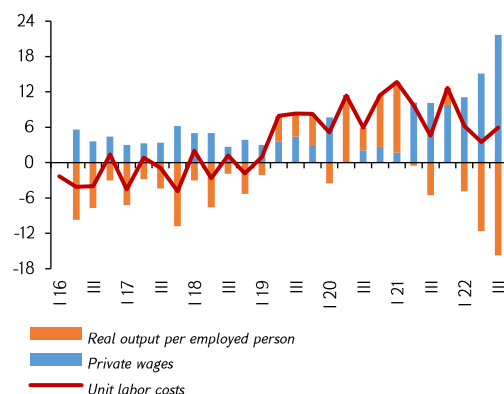
Private nominal wages (y/y growth, %)



Source: NSS, CBA estimate

Chart 32

Unit labor costs growth, y/y (%)



Source: NSS, CBA estimate

During the third quarter of 2022, the Central Bank raised policy rate by 0.75 percentage points, setting it at 10.0%.

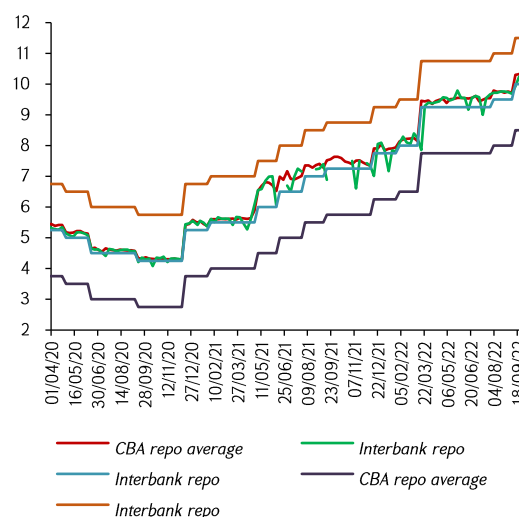
3.3. Financial Market Developments

During the third quarter of 2022, the Central Bank raised policy rate by 0.75 percentage points, setting it at 10.0%.

Given the high demand resulting from the inflow of international visitors and financial flows and the inflationary effects spilled over from the external sector, as well as role of the AMD appreciation in certain mitigation of the domestic inflationary environment and stabilization of inflationary expectations, in August, the Board of Central Bank made a decision to tighten monetary conditions in a small step with the view to regulating inflation expectations, and raised the policy rate by 0.25 percentage points. In September, the Board raised the policy rate by 0.5 percentage points, based on the assessment of the domestic inflation growth and persistence of high inflation expectations.

Chart 33

During the quarter, short-term interest rates still stayed around the CBA policy rate



Source: CBA

Table 5

Average quarterly interest rates in Armenia's financial market								
Indicators	03.11.21-14.12.21	15.12.21-01.02.22	02.02.22-15.03.22	16.03.22-03.05.22	04.05.22-14.06.22	15.06.22-02.08.22	03.08.22-13.09.22	14.09.22-01.11.22
Central Bank refinancing rate (end of quarter)	7.25	7.75	8.00	9.25	9.25	9.25	9.5	10.0
Central Bank repo rate	7.44	7.93	8.20	9.46	9.51	9.53	9.75	10.32
Interbank repo rate (up to 7-day)	7.05	7.68	8.14	9.39	9.65	9.55	9.67	10.32
Yield of government securities on a yield curve (as of end-quarter)								
Treasury bills (1 year)	8.84	9.02	9.08	10.13	10.25	10.41	10.46	10.86
Notes (5 year)	9.82	9.90	9.93	10.97	10.87	10.98	11.02	11.43
Bonds (30-year)	10.08	10.17	10.25	11.20	11.26	11.59	11.69	12.04

Source: CBA

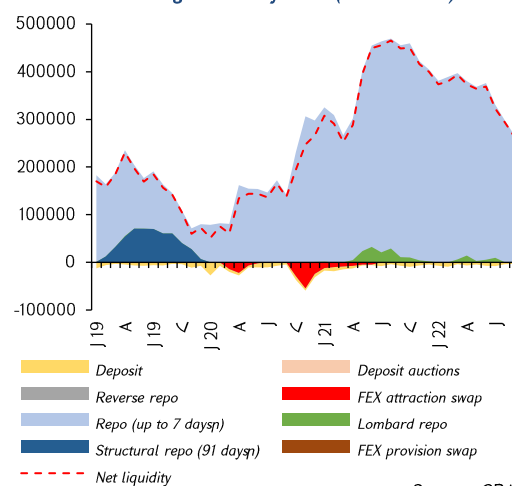
In the third quarter of 2022, the previous quarter trends in financial market continued: a high level of liquidity and capital in financial system and appreciation of the AMD in currency market under the impact of large inflow of international visitors and growth of financial flows. During the quarter, demand for dram liquidity injected to commercial banks through the CBA main instrument shrank by about AMD 100.0 billion.

The government securities yields responded adequately to the increase in Central Bank policy rate. While the high level of liquidity in the financial system have partially restrained the growth of yields, at the end of September, parallel to that the yield curve shifted upwards over the previous quarter: the average growth of G-Sec was 0.4 percentage points.

During 2022, QIII, the growth of the funds attracted and provided by commercial banks continued. However, despite the continuous large-scale inflow of foreign exchange and large amounts of foreign exchange liquidity available in the banking system, the growth of lending volumes was not so high. According to lending terms surveys¹⁰, during the third quarter, growth in lending supply was accompanied by a slowdown in demand. Amid the external and domestic uncertainties, both the commercial banks' reaction, and a certain growth in the incomes of customers had a constraining effect on lending. Compared

Chart 34

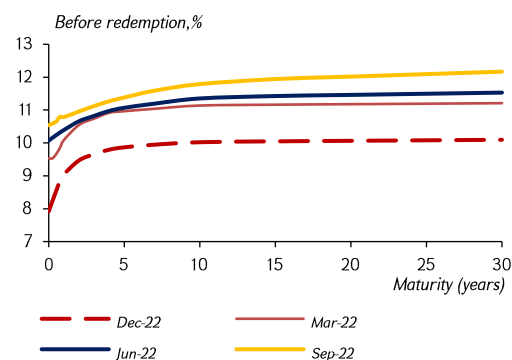
Liquidity absorbed and injected through CBA transactions average monthly stock (AMD million)



Source: CBA

Chart 35

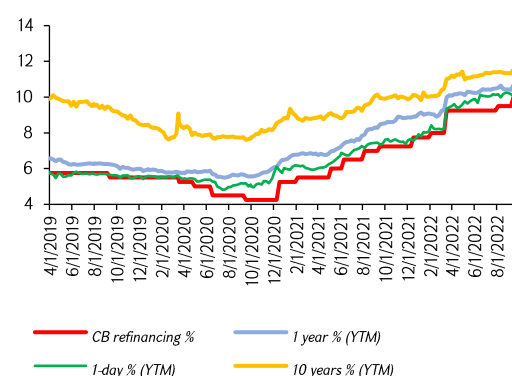
In 2022 QIII, government bond yields grew along all segments of the curve



Source: NSS

Chart 36

Dynamics of the CBA refinancing rate and government bonds yields



Source: CBA

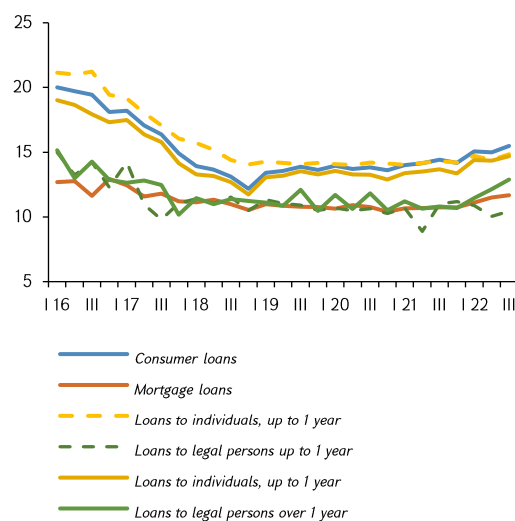
¹⁰ The survey of commercial banks and credit organizations on credit conditions is carried out quarterly. The survey for the third quarter of 2022 was conducted in October.

to the previous quarters, expectations regarding credit supply and demand, especially in terms of business lending, have deteriorated. Total lending grew by 4.2% on a 12-month basis in September 2022, with mortgage lending growth continuing to be quite strong.

In the third quarter, large-scale transactions in foreign exchange market took place. Due to the high demand of international visitors for domestic services and the significant inflow of financial flows from abroad, the dram appreciation trend in foreign exchange market continued in this quarter. The average quarterly AMD/USD exchange rate appreciated by 10.1%, and AMD/RUB rate by 0.4%. The Central Bank had a situational intervention in the foreign exchange market, contributing to sustainable operation of financial markets and neutralization of short-term disruptions and emerging problems. As a result, during the third quarter, the volume of net purchase of US dollars by the Central Bank totaled US\$ 154.8 million.

Chart 37

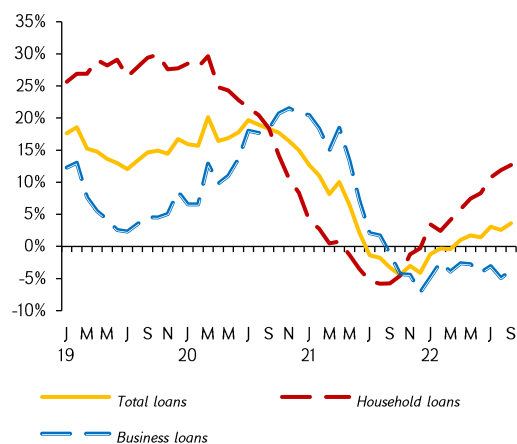
In the third quarter of 2022, lending rates grew for almost all types of loans



Source: CBA

Chart 38

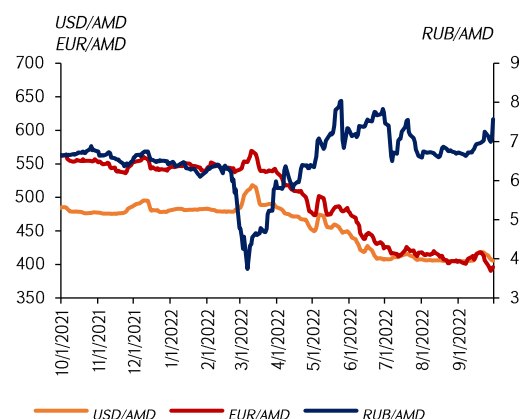
12-month dynamics of banks' lending



Source: CBA

Chart 39

Exchange rates of different currencies against the AMD



Source: CBA

4. SUMMING UP

According to the monetary policy program of the Central Bank of Armenia for the fourth quarter of 2022, in the upcoming period the existing large demand will significantly contribute to persistence of high inflationary environment and inflationary expectations, in view of which the Central Bank raised policy rate at this stage. In the medium term, due to the implemented monetary policy, inflation will decline *and stabilize around the 4% target.*

The risks of deviating from the projected inflation trajectory in the 3-year policy horizon are balanced, and in case of their emergence, the Central Bank stands ready to respond accordingly, in to ensure the achievement of the medium-term price stability objective.

CBA BOARD MEETING

MINUTES (13.12.2022)

On the Refinancing Rate

**The CBA Board Meeting of December 13, 2022 attended by
CBA**

**Governor M. Galstyan, Deputy Governors N. Yeritsyan and
H. Khachatryan, and Board Members D. Nahapetyan, A.
Manukyan and L. Sahakyan**

The Board meeting opened with presentation of the Situation Report as of December 13, 2022. It 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. As noted, in the fourth quarter, the trends of low economic activity persisted in the global economy. At the same time, in the main partner countries of Armenia the high inflationary environment still persists, factored by demand and high inflation expectations. In such circumstances, central banks of the developed countries, particularly in the EU, will continue to significantly tighten the monetary conditions with the view to mitigating the impact of energy crisis on inflation. In Russia, the situation is different: a milder decline in economic growth compared to the planned one is expected due to the increase in budget expenditures, which are mostly of capital nature and will have a modest impact on inflation. Therefore, the Bank of Russia will continue to gradually loosen monetary conditions. As a result of consistent monetary actions in developed economies, global demand will weaken to a certain extent, and prices on international commodity markets will decline, contributing to mitigation of the global inflationary environment and the alleviation of inflationary effects spilled over from the external sector.

The Board reviewed developments of the Armenian economy, it was noted that high economic activity continued in the fourth quarter of 2022, mostly due to the high external demand in the services sector. Positive developments were also observed in the construction sector. At the same time, there is an increase in export and GDP potential in the services and industry sectors. Despite the growth of remittances and

disposable incomes, private spending remains subdued and is reflected in the growth of private sector savings, which is mostly observed in enterprises.

The developments of the domestic financial market were reviewed and it was noted that in the fourth quarter, short-term market interest rates shaped around the policy rate. Due to the foreign financial inflow and positive export developments, during the quarter, the dram appreciation trend in the RA foreign exchange market continued. At the same time, in some cases, large-scale financial inflow in foreign exchange market caused possible risks of disruptions, to which the Central Bank responded by intervening in market, buying foreign exchange and contributing to sustainability of the financial market. It was noted that the large-scale inflow of foreign exchange had affected deposit market as well, where, especially since September, a significant growth of foreign exchange deposits took place.

The Board reviewed inflationary developments. Accordingly, in November 2022, 1.1% inflation was recorded over 1.7% in the same month of the previous year. The main contributors of the monthly inflation were food products with 1.6% price growth, non-food products (0.5% growth) and tariffs on services (0.2% growth). ***As a result of these changes, the 12-month inflation dropped to 8.8% at the end of the month. The 12-month core inflation dropped too, totaling 9.9%.*** Furthermore, it was noted that as a result of a certain easing in inflationary effects spilled over from the external sector, dram appreciation and implementation of the contractionary monetary policy, inflationary environment has mitigated to some extent, although the existing high demand and inflationary expectations significantly contribute to the high level of inflation.

After reviewing the Situational report and external and internal macroeconomic developments, the Board proceeded to the discussion of macroeconomic scenarios, monetary policy directions and the decision on policy rate. Forecasting team presented to the Board scenarios of economic development perspectives in the above-described macroeconomic situation, including relevant actions of monetary policy under the scenarios of high and low inflation. The Board members concurred that due to the significant contractionary monetary policy conducted by the central banks of the main trade partners of Armenia, inflationary effects spilled over from the external sector have weakened to some extent. Moreover, individual members of the Board considered that the weak demand and deflationary trends spilled over from the external sector, a certain growth of the supply potential in the real sector, together with the previous monetary

operations of the Central Bank of Armenia created sufficient grounds for the realization of the medium-term inflation goal. However, on the other hand, in the opinion of the majority of the members of the Board, despite the weakening of inflationary impulses from the external sector, the high demand and inflationary expectations persisting in the domestic economy contain significant monetary risks, therefore, given the priority of their management, they considered it necessary to continue consistent tightening of the monetary policy. Subsequently, ***the Central Bank Board decided by the majority of votes to raise refinancing rate by 0.25 percentage points.*** To this end, the Board emphasized its tenacity in ensuring stabilization of inflation with adequate actions and neutralizing any risk of deanchoring inflationary expectations. According to the outlined monetary policy scenario, the 12-month inflation will gradually decline and stabilize around the 4% target in the medium-term horizon.

The Board estimates that the risks of inflation deviation from the projected trajectory are mainly balanced. In case the risks materialize in any direction, the Board stands ready to respond accordingly in fulfilment of the price stability objective.

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

THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA

BOARD DECISION

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

By virtue of Article 2(3), Article (20) “c” and “e” of the law “On the Central Bank of the Republic of Armenia”, and provisions of the Republic of Armenia law “On Normative Legal Acts”, the Board of the Central Bank of the Republic of Armenia enacts:

1. Set the refinancing rate of the Central Bank of the Republic of Armenia at 10.75%.
2. Set the Lombard repo facility rate offered by the Central Bank of the Republic of Armenia at 12.25%.
3. Set the deposit facility rate offered by the Central Bank of the Republic of Armenia at 9.25%.
4. Approve the press release on the refinancing rate of the Central Bank of the Republic of Armenia (attached).
5. This decision shall enter into force on the day following the day of its publication on the website of the Central Bank of the Republic of Armenia.

Martin Galstyan,
Governor of the Central Bank
December 13, 2022

PRESS RELEASE
13.12.2022

At the December 13, 2022 meeting, the Board of the Central Bank of Armenia (CBA) decided to raise the refinancing rate by 0.25 pp to 10.75%.

In November 2022, the 12-month inflation decreased to 8.8%. The 12-month core inflation reduced as well, reaching 9.9%.

Global economic activity continues slowing. However, the inflationary environment in Armenia's main partner countries still persists driven by expanded demand and high inflation expectations. Therefore, the central banks of developed countries will continue to tighten monetary conditions in the near future. Consistent tightening of monetary conditions in partner countries will contribute to the weakening of global demand and some downward price adjustment in international commodity markets. Subsequently, the inflationary effects on the Armenian economy from the external sector are expected to weaken.

In the fourth quarter of 2022, high activity in the Armenian economy persists. Elevated external demand continues to contribute the higher growth in the services sector. At the same time, an increase in export and GDP potential is observable in the services and industry sectors. The growth of prices of imported food products is somewhat slowing down as a result of the contractionary monetary policy, the dram appreciation, as well as the effects spilled over from the external environment. This helps to mitigate the overall inflationary environment. Nevertheless, the impact of sustained high demand and high inflation expectations still plays a significant role in the dynamics of inflation.

The Board of the CBA finds it reasonable to raise the policy rate. The Board of the CBA will be committed to taking adequate actions to stabilize inflation and offset any risk of deanchoring inflation expectations. According to the outlined monetary policy scenario, the 12-month inflation will gradually decline and stabilize around the 4% target in the medium run.

The Board of the CBA estimates that the risks of inflation deviation from the projected path are mainly balanced; should the risks materialize in any direction, the Board stands ready to respond accordingly in fulfilment of the price stability objective.

CBA Public Relations Service

ARMENIA: SELECTED MACROECONOMIC INDICATORS

Indicators	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	actual	actual	actual	actual	actual	actual	actual	program	program	program	program
External sector											
USA economic growth (% <i>real growth</i>)	2.7	1.7	2.3	2.9	2.3	-2.7	6.1	1.8	1.0	2.5	2.7
Eurozone economic growth (% <i>real growth</i>)	1.9	1.8	2.7	1.9	1.6	-6.3	5.5	3.3	0.1	-0.6	0.5
Russia economic growth (% <i>real growth</i>)	-1.9	0.2	1.8	2.8	2.0	-2.9	4.8	-2.9	-2.0	2.0	1.0
USA inflation (<i>average</i> , %)	0.1	1.3	2.1	2.4	1.8	1.2	4.7	8.2	6.0	3.6	2.3
Eurozone inflation (<i>average</i> , %)	0.0	0.2	1.5	1.7	1.2	0.3	2.6	8.6	9.4	5.1	2.4
Russia inflation (<i>average</i> , %)	14.4	6.8	3.6	2.8	4.5	3.4	6.7	13.8	8.3	6.0	4.5
Oil price (US\$/barrel)	53.5	45.0	54.6	71.4	64.1	42.5	71.0	100.2	97.0	101.2	102.5
Copper price (US\$/barrel)	5497.4	4867.6	6201.5	6544.7	6024.1	6191.2	9288.1	8726.5	8015.2	8496.7	8785.7
FAO index	93.0	91.9	98.0	95.9	95.1	98.1	125.7	143.9	137.0	141.3	143.2
Domestic economy											
Prices											
Inflation (y/y, <i>end of period</i> , %)	-0.1	-1.1	2.6	1.8	0.7	3.7	7.7	9.5	3.9	4.0	4.0
Consumer price index (y/y, <i>average</i> , %)	3.7	-1.4	1.0	2.5	1.5	1.2	7.2	8.7	4.8	3.9	4.0
Core inflation (y/y, <i>average</i> , %)	5.1	-2.0	0.8	4.0	1.2	1.3	7.2	8.9	6.0	4.5	4.0
Gross product											
GDP (<i>billion Armenian dram</i>)	5043.6	5067.3	5568.9	6017.0	6543.3	6181.7	6983.0	8500.8	9243.9	10039.0	10880.1
GDP (% <i>real growth</i>)	3.2	0.2	7.5	5.2	7.6	-7.4	5.7	12.9	4.6	4.4	4.2
Supply											
Industry (% <i>real growth</i>)	6.2	7.7	11.7	4.9	12.0	-1.7	3.5	5.3	5.7	5.9	5.2
Agriculture (% <i>real growth</i>)	13.2	-5.0	-5.1	-6.9	-5.8	-4.1	-0.6	-0.7	1.4	1.8	2.7
Construction (% <i>real growth</i>)	-3.1	-14.1	2.8	0.6	6.5	-6.7	3.1	20.1	9.6	7.8	5.5
Services (% <i>real growth</i>)	1.6	3.2	10.6	9.1	10.0	-9.7	7.9	18.6	4.0	3.9	4.0
Taxes, net (% <i>real growth</i>)	-5.1	-3.7	9.7	8.0	7.1	-10.0	7.4	10.0	4.8	4.5	4.2
Demand											
Consumption (% <i>real growth</i>)	-6.0	-2.1	11.6	3.8	11.7	-10.9	4.2	8.0	2.3	3.9	3.9
Public consumption (% <i>real growth</i>)	4.7	-2.4	-2.1	-3.0	12.9	9.2	8.4	3.9	-0.3	2.3	1.9
Private consumption (% <i>real growth</i>)	-7.5	-2.1	14.0	4.8	11.5	-14.0	3.4	8.9	2.9	4.3	4.2
Gross accumulation of fixed assets* (% <i>real growth</i>)	2.5	-11.4	9.7	4.8	4.4	-1.5	6.3	16.0	17.5	6.8	8.6
Public investment** (% <i>real growth</i>)	13.6	5.0	31.7	-37.4	31.1	16.2	-9.9	42.1	60.3	9.4	15.4
Gross accumulation of private fixed assets (% <i>real growth</i>)	1.2	-13.9	6.2	19.6	-0.5	-5.7	11.2	9.6	8.2	6.1	6.0
Export of goods and services (% <i>real growth</i>)	4.9	21.3	19.3	5.0	16.0	-33.4	17.1	52.2	2.0	3.4	4.2
Import of goods and services (% <i>real growth</i>)	-15.3	6.3	24.6	13.3	11.6	-31.4	12.5	39.5	1.8	3.3	3.9
Current account											
Balance of trade ((<i>million US dollar</i>))	-1186.4	-976.9	-1400.9	-1724.4	-1727.9	-1382.2	-1504.8	-2119.0	-2211.3	-2307.4	-2332.0
Balance of services ((<i>million US dollar</i>))	-96.4	70.4	159.4	24.7	-66.9	118.0	396.9	1099.2	946.9	983.2	954.1
Remittances ((<i>million US dollar</i>))	1098.3	1009.4	1179.3	1136.2	1143.8	1046.2	1243.1	1639.4	1289.1	1216.1	1153.8
Current account ((<i>million US dollar</i>))	-284.7	-107.9	-173.9	-875.9	-1002.3	-477.8	-515.1	-639.5	-1034.4	-1117.2	-1193.3
Balance of trade (<i>share in GDP</i> , %)	-12.2	-8.6	-10.8	-13.7	-13.1	-10.0	-7.9	-5.3	-5.7	-5.9	-5.7
Balance of services (<i>share in GDP</i> , %)	-0.9	0.7	1.4	0.2	-0.5	0.9	2.8	5.7	4.3	4.4	4.0
Remittances (<i>share in GDP</i> , %)	10.4	9.5	10.2	9.1	8.4	8.3	8.9	8.4	5.9	5.5	4.8
Current account (<i>share in GDP</i> , %)	-2.7	-1.0	-1.5	-7.0	-7.3	-3.8	-3.7	-3.3	-4.7	-5.0	-5.0

Indicators	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	actual	actual	actual	actual	actual	actual	actual	program	program	program	program
Public sector***											
Revenues and grants (billion Armenian dram)	1167.7	1171.1	1237.8	1341.7	1559.1	1560.4	1683.8	2038.9	2253.8	2537.6	2856.5
Tax revenues (billion Armenian dram)	1067.9	1079.7	1158.0	1258.1	1464.3	1385.2	1586.9	1920.1	2176.4	2467.0	2790.3
Expenditures (billion Armenian dram)	1409.0	1449.1	1504.8	1447.1	1623.0	1894.3	2004.3	2189.0	2546.0	2810.9	3138.9
Deficit (billion Armenian dram)	-241.3	-278.0	-267.0	-105.4	-63.9	-333.9	-320.5	-111.2	-292.2	-273.3	-282.4
Revenues and grants (share in GDP, %)	23.2	23.1	22.2	22.3	23.8	25.2	24.1	24.0	24.4	25.3	26.3
Tax revenues (share in GDP, %)	21.2	21.3	20.8	20.9	22.4	22.4	22.7	22.6	23.5	24.6	25.6
Expenditures (share in GDP, %)	28.0	28.6	27.0	24.1	24.8	30.6	28.7	25.8	27.5	28.0	28.8
Deficit (share in GDP, %)	-4.8	-5.5	-4.8	-1.8	-1.0	-5.4	-4.6	-1.8	-3.2	-2.7	-2.6
Monetary sector											
Broad money (y/y, end of period, %)	10.8	17.5	18.5	7.5	11.2	9.0	13.1	-	-	-	-
Dram broad money (y/y, end of period, %)	5.2	24.8	28.9	13.2	21.5	14.8	12.8	-	-	-	-
Loans to economy (y/y, end of period, %)	-3.3	6.0	16.5	17.2	18.5	14.3	-3.9	-	-	-	-
USD/AMD (Armenian dram for one US dollar)	477.9	480.5	482.7	483.0	480.4	489.0	503.8	-	-	-	-
* Hereinafter, the Central Bank will only present the indicator of the aggregate fixed asset accumulation instead of the aggregate accumulation, since the change in tangible working capital inventories is considered by Armenia's Statistics Committee as a balancing item and it does not show the true level of the aggregate accumulation. See https://www.armstat.am/file/article/sv_04_19a_112.pdf. ** Actual indicators of public investment are capital expenditures of the consolidated budget, and the estimates are based on the currently revised macro framework for 2022-2024. *** Indicators of the 2022 state budget are the CBA estimates. The source of 2022-2024 indicators is the Government MTEFP.											

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