



## EXECUTIVE SUMMARY <sup>1</sup>

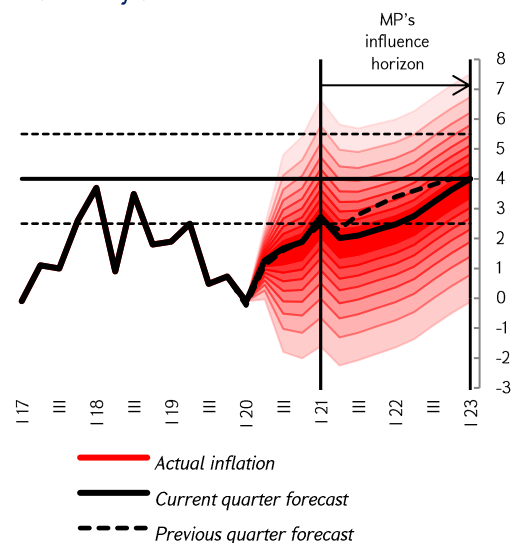
**During the second quarter of 2020 the rate of coronavirus spread worldwide, including in Armenia, accelerated significantly. Consequently, state of emergency was extended phase by phase in almost all countries of the world, while adhering to healthcare and economic restrictions. As a result, compared to the forecasts made in March under big uncertainty, the second quarter registered much deeper-than-expected declines in global economic activity and economic activity in Armenia, significant weakening of aggregate demand, deflationary patterns in key commodity markets, and uncertainty over the duration of the pandemic and economic growth outlook increased. In this situation, the world's major financial institutions and central banks have adjusted and revised their estimates of main macroeconomic indicators downside. Accordingly, the central banks continued to pursue a stimulative monetary policy during the quarter to ensure the recovery of demand and price stability.**

The Central Bank of Armenia also significantly revised its 2020 economic growth outlook from 0.7% projected in the previous quarter to -4.0%. This is determined by both an intensification of economic decline in the second quarter and anticipation of a slower recovery in the future, with economic growth in the medium term to reside below the long-term steady state. At the same time, in the face of low external demand and big uncertainty, private demand is expected to weaken. In order to neutralize this deflationary effect, the **Central Bank decided to cut the refinancing rate this time in a larger step**, assessing that under such circumstances the monetary conditions will need to remain expansionary in the medium run as well.

As a result, 12-month inflation will still be persisting low in the near future, as the effects of weak private demand in the short term will

Chart 1

Inflation (12-month) Forecast Probability Distribution Chart for 3-year horizon



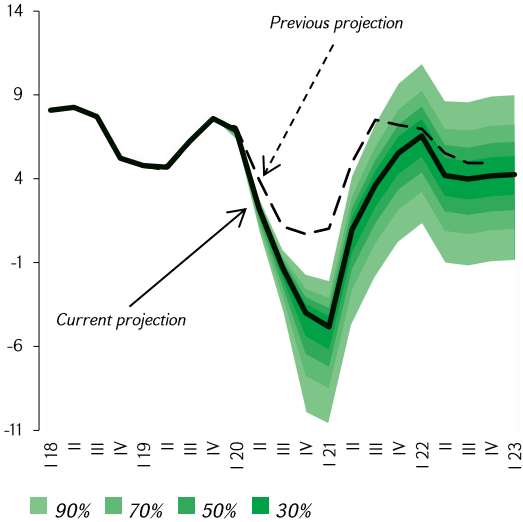
Source: RA Statistics Committee,  
Central Bank forecast

<sup>1</sup> The full Inflation Report (Monetary Policy Program, Q2, 2020) in English will be published during the first week of August, 2020.

outweigh the expansionary impact of the fiscal policy. In the medium term, the inflation, driven by an expansionary monetary policy, will gradually recover, stabilizing around the target at the end of the forecast horizon.

**The inflation and economic growth scenario risks in the forecast horizon are primarily downside due to possibly longer duration of the pandemic and deeper negative economic effects** (see subsection “2.2.4. Main assumptions and risks”). If existing risks materialize, the Central Bank stands ready to adjust the monetary conditions accordingly while ensuring the price stability in the medium run.

**Chart 2**  
**Real GDP (cumulative)<sup>2</sup> projection probability distribution chart for 3-year horizon**



Source: RA Statistics Committee, Central Bank forecast

<sup>2</sup> The growth rate of each quarter is calculated as the cumulative growth rate for the last four quarters.