

Inflation report 2021/2 (Monetary Policy Program Q2 2021, Status report on Implementation of the Monetary Policy Program Q1 2021)

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Executive summary

In the aftermath of the devastating year full of health and economic-political challenges, in 2021 development trends of the global economy surpassed the expectations both in terms of overcoming the coronavirus pandemic due to vaccination and faster economic and aggregate demand recovery enhanced by strongly expansionary policies. These trends in the global commodity markets and in the main partner countries of Armenia have led to a significant expansion of the inflationary environment spilled over to the Armenian economy through a number of imported goods, and reflected in rising inflation and expectations of inflation. According to projections, the inflationary developments in the external sector are of short-term nature, hence the world's leading economies and partner countries of Armenia continue to prioritize expansionary monetary policy, planning its gradual and slow retraction in the medium term.

According to the baseline scenario of the Central Bank of Armenia, in the coming quarters 12-month inflation will remain at a high level. Demand factors have been added to the supply-side impact factors from international food prices due to the large increase in private consumption than opportunities to expand production capacity. As a result of faster growth of private consumption compared to the output expansion capacity, supply-side factors of international food prices were followed by demand-side factors. In light of the existing situation, the Central Bank has raised policy rate. In the meantime, reaffirming consistency of the policy to neutralize the risks of accelerating inflation expectations in the face of higher domestic demand, the Central Bank considers introduction of possible changes with the view to mitigating and restraining expansionary stance of monetary conditions.

According to the Central Bank's short-term forecast scenario, recovering faster-than-expected in the coming quarters growth rate (compared to the same period last year) will be in positive stance starting from the second quarter of 2021 mainly due to the growth of private consumption. Accordingly, the Central Bank has substantially revised upwards the annual economic growth rate projection. Growth in the medium term will slow down

somewhat and stabilize around the long-term equilibrium level.

Economic growth in 2021 will be mainly driven by growth in output from the industry and service sectors, along with quick recovery in gross demand, in particular private consumption. Slowdown in the medium-term growth will be mostly the consequence of continuing sluggish investment activity and gradual stabilization of rapidly growing private consumption due to the restrictive fiscal and monetary policies.

Risks of deviation from the forecast inflation and economic growth in the forecast horizon are balanced (see subsection “2.2.4 Main Assumptions and Risks”). The Central Bank monitors macroeconomic developments and in case of any emergence of risks the CBA stands ready to respond accordingly, ensuring the fulfilment of the price stability objective in the medium term.

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[Graphs and tables Q2, 2021](#)