

Inflation report 2021/3 (Monetary Policy Program Q3, 2021, Status report on Implementation of the Monetary Policy Program Q2, 2021)

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Executive summary

In the third quarter of 2021, 12-month inflation continued to rise, reaching 8.8% in August. According to the baseline scenario of the Central Bank of Armenia, the high inflationary environment in the coming quarters will continue. Thus, in the context of higher growth of domestic demand compared to the expansion of output capacity and the expected impact of the high inflationary environment in the international commodity markets, the acceleration of inflation and inflation expectations is still continuing. As a result, the Central Bank has raised the policy interest rate at this stage as well.

Under the current monetary policy and expected economic developments, 12-month inflation will remain high, then in 2022 it will approach the target of 4% and stabilize around it in the medium term.

According to the Central Bank's short-term forecast scenario, given the expected higher level of domestic demand, the annual forecast of economic growth has been revised upwards. The projected path of economic growth in the medium term has not changed significantly: it will slow down somewhat and stabilize around a long-term equilibrium level.

The revised economic growth in 2021 will be mainly driven by expected higher growth in services and output of the agricultural sector, accompanied by faster growth in gross demand, especially private consumption. The slowdown of growth in the medium term will be mostly the consequence of sluggish investment activity conditioned by gradual decrease of the economic and political uncertainties, and gradual stabilization of rapidly growing private consumption due to the restrictive fiscal and monetary policies.

Risks of deviation from the forecast inflation in the forecast horizon are balanced, and in terms of economic growth, the risks of higher growth are slightly higher (see for details 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 Q3, 2021](#)