

Inflation report 2021/4 (Monetary Policy Program Q4, 2021, Status report on Implementation of the Monetary Policy Program Q3, 2021)

2021-12-27

Executive summary

Positive developments in demand continue in the fourth quarter of 2021 amid moderate effects of the subsequent global wave of pandemic, together with the persistence of supply chain disruption and supply constraint factors. In this situation, both in the main partner countries of the Republic of Armenia and compared to the previous forecast, a higher inflationary environment has been shaped, and inflation expectations have somewhat grown.

In the fourth quarter, 12-month inflation continued to rise, as expected, reaching 9.6% in November. According to the baseline scenario of the Central Bank of Armenia, in the context of the aforementioned factors, inflationary effects transmitted from the external sector are expected to increase, as a result of which the Central Bank has already raised the policy interest rate at this stage.

12-month inflation will gradually decline under the current monetary policy and expected economic developments, approaching the target of 4% in the forecast medium-term horizon, and will stabilize around it.

According to the Central Bank's short-term forecast scenario, the forecast for Armenia's economic growth in 2021 has been revised downwards, but will stay higher along the forecast horizon. Hence, economic growth in the medium term is estimated to be slightly above its stable level.

The revision of economic growth in 2021 is mainly due to the expected lower growth of industry and agriculture, which in terms of demand will be reflected in more restrained domestic demand. In the medium term, the economic growth forecast has been revised upwards compared to the previous forecast, mainly due to the implementation of capital expenditures planned in the 2022 state budget and its economic impact.

The risks of inflation deviating from the predicted trajectory in the forecast horizon, are

mainly upwards, and the risks in terms of economic growth are balanced (details are provided in subsection 2.2.4. “Main Judgments 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 \(4th quarter\)](#)