

Inflation report 2020/3 (Monetary Policy Program Q3 2020, Status report on Implementation of the Monetary Policy Program Q2 2020)

2020-09-25

Executive summary

After the deep decline in the global and Armenian economies due to considerably accelerating spread of the new coronavirus in the second quarter of 2020, a certain reviving of economic activity is observable in the third quarter. However, the still high uncertainty about eventual overcoming of the pandemic is estimated to restrain and delay the recovery of economic activity and aggregate demand in global and domestic economies. In view of these developments, and due to a low inflationary environment, most central banks, including the central banks of the partner countries, continued maintaining stimulative monetary conditions during the quarter, which was accompanied with a sizable expansionary fiscal policy implemented by governments.

According to the baseline scenario of the Central Bank of Armenia, a low inflationary environment is sustained in the third quarter, under which the CBA continues the implementation of a stimulative monetary policy.

In view of expected economic developments, the 12-month inflation will remain low in the near future, as prices, despite stimulative monetary and fiscal policies, are prevalingly incurring the impact of weak private demand due to uncertainties related to overcoming the pandemic. To ensure the projected inflation path, in expectation of a persisting low inflationary environment as well as non-inflationary effects from the external sector in the near future, the CBA increases the amount of stimulus by cutting the refinancing rate by 0.25 percentage points to 4.25%. As expected economic developments unfold, the CBA Board is inclined to continue easing monetary conditions in the near future, estimating that keeping the monetary stance expansionary in the medium term will be also necessary. The CBA estimates that, with stimulative monetary conditions, inflation will gradually recover in the forecast horizon and at the end of the horizon it will stabilize around the 4% target.

According to the CBA baseline scenario of short-term forecasts, driven by economic consequences of the spread of the pandemic and existing high uncertainty about the

duration of it, the 2020 economic growth will be in the negative territory; in the medium term it will recover but will remain lower than its long-term equilibrium level.

The economic decline of 2020 will mainly be determined by a significant reduction in private spending. In the medium term, as uncertainties decrease, the restoring of demand will greatly be facilitated by the implementation of an expansionary monetary policy in particular.

In the forecast horizon, risks to inflation and economic growth deviating from the projection path are twofold and mainly balanced (see subsection “2.2.4 Main Assumptions and Risks”). Overall, as there is a great deal of uncertainty about healthcare situation and, therefore, how the economy develops further, the CBA attempts to reduce the potential risks ensuing from these uncertainties by building different scenarios for the unfolding of the situation and considering the appropriate policy response. This will allow to adjust the monetary conditions accordingly, should such risks materialize, while ensuring price stability in the medium term.

[Inflation report \(Monetary Policy Program 3Q 2020, Status report on Implementation of the Monetary Policy Program 2Q 2020\)](#)

[Graphs and tables Q2, 2020](#)