

Status Report on Implementation of the Monetary Policy Program (Q2, 2020 - Q1, 2021)

2021-05-25

(2021/1) The period under review spans a year from April 2020 to March 2021, which has proved difficult for the healthcare system and economy in the world and Armenia. The outbreak of New Coronavirus disease (COVID-19) in the world in late 2019, aggravated by martial law declared in Armenia amid the hostilities in Artsakh since September 27, 2020 and the resulting economic and political uncertainties, posed serious health, social and economic problems and challenges to the world and Armenia, in particular. In Armenia, these were reflected in a notable decline in economic activity, considerably weakened aggregate demand, as well as a low inflationary environment in such conditions. In that situation, the Armenian Government has implemented a significant fiscal stimulus policy aimed at socio-economic assistance and the Central Bank of Armenia pursued a stimulative monetary policy steered to securing the 12-month inflation at a 4% target over the forecast horizon. Thus, in April-November, the CBA gradually reduced the refinancing rate by a total of 1.0 pp. Already in December, when inflation and inflation expectations were predicted to somewhat accelerate in anticipation of inflationary effects from the external sector and dram depreciation in the currency market amid positive signs for the recovery of world economy, the CBA increased the policy rate in a big step, 1.0 pp. In February 2021, it raised the policy rate again, by 0.25 pp to 5.5%. Even with such an increase, the monetary policy's stance remained expansionary. As a result, the 12-month inflation has increased gradually in the reporting period and, since the end of the year, it expanded even faster due to supply factors and amounted to 5.8% in March, stepping above the 4% target.