

*Approved under the Central Bank Board
Resolution No 140A,
dated September 28, 2021*

Inflation Report/3

Monetary Policy Program, QIII, 2021

✦
*Status Report on Implementation of the Monetary
Policy Program, QII, 2021*

The inflation targeting strategy of the Central Bank of Armenia highlights the importance of communicating of the Bank to the general public by publishing, inter alia, quarterly inflation reports.

The first section of the inflation report includes the Monetary Policy Program that provides main directions of the monetary policy in the forecast horizon as well as forecasts of inflation and other macroeconomic indicators. These forecasts are based on the Bank's assessment of the current situation and future assumptions by the Bank, which also include the impact of the Bank operations.

The second section includes the Status Report on implementation of the monetary policy program of the previous year, which presents the results of monetary policy implementation and covers the actual developments in the domestic economy.

Publishing of inflation forecast and underlying assumptions in parallel to target inflation indicator makes monetary policy of the Bank more transparent, understandable and predictable, which considerably increases the public confidence in the Bank.

The Bank believes that a clear and trusted monetary policy positively affects the anchoring of inflation expectations and maintaining financial stability in terms of cost reduction.

According to the rule of monetary policy, the policy is aimed at minimizing the deviations between the 4% target and the inflation forecasts. The path to inflation rate shaped as a result of projected policy directions is published as a Projection Probability distribution chart for the 12-quarter time horizon.

Projections in this report are based on the actual information available by September 14, 2021, i.e. the day on which the refinancing rate was set, the results of survey conducted by the Bank and the judgment made pursuant to the information on future developments of the macroeconomic environment.

All inflation reports which have been published to date are available on the Bank's website (www.cba.am) which also contains all press-releases and other monetary policy-related publications.

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1. 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.

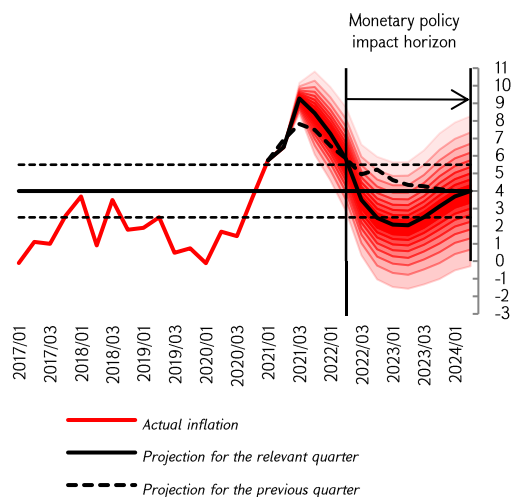
According to the Central Bank's short-term forecast scenario, given the expected higher level of domestic demand, the annual forecast of economic growth has been revised upwards. The projected path of economic growth in the medium term has not changed significantly: it will slow down somewhat and stabilize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

Chart 1

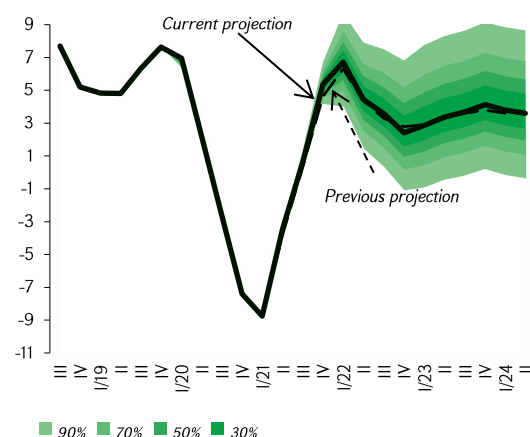
Inflation (12-month) projection probability distribution for 3-year horizon



Source: NSS (RA National Statistical Committee), CBA projections

Chart 2

Real GDP growth (cumulative) forecast probability distribution for 3-year horizon



Source: NSS, CBA projections

¹ The growth rate of each quarter is calculated as the cumulative growth rate for the last four quarters.

2. FORECAST, FORECAST CHANGES AND RISKS

2.1. External Environment Developments

While the recovery of the global economy will continue, a slower recovery of economic growth is expected by the end of the year. Despite of the widespread global vaccination, the recovery is affected by the world-wide rapid spread of the new delta-type coronavirus, as a result of which the growth in the services sector is projected to slow down. The spread of the new type of infection has an impact on commodity markets as well, particularly in the oil market, where because of the expectations of a slowdown in demand, prices will fall somewhat in the short term, however, remaining at higher levels than previously projected.

While the recovery of the global economy will continue, a slower recovery of economic growth is expected by the end of the year.

New mutations of the COVID virus and slow vaccination rates in developing countries continue to be major obstacles to the recovery of the global economy. Among Armenia's partner countries as of September, the share of population vaccinated with at least one dose in the USA and Europe was around 65%, and in Russia - around 30%.

Economic Developments in the United States. Current developments in the US economy indicate that the economy is recovering in line with the projections. According to the Bureau of Economic Analysis of the US Department of Commerce, the growth of US economy in the second quarter of 2021 was 12.2% yoy, which is close to the CBA projections, mainly due to the high growth of private consumption, reflecting higher-than-expected impact of initiatives to boost the economy. Subsequently, the economic growth projection for 2021 remains unchanged and is expected to be around 6.0%.

In the medium term, US economic growth will be somewhat higher than previously projected, largely due to the estimated positive impact of long-term infrastructure projects recently approved by the US Senate (about \$ 550 billion in additional capital investment over the next 5 years).

Labor market trends in the third quarter of 2021, have been already improving faster than expected (unemployment in July was 5.4%) and the number of applicants for weekly unemployment benefits is steadily declining, due to which the recovery of the economy, despite the spread of a new type of infection, in the short term will be at a slightly faster pace. It is estimated that the rapid pace of recovery in the labor market observed in recent months will slow down because of the

limited possibilities of further improvement in health situation, hence return to the pre-crisis level of jobs will be possible not earlier than in the second half of 2022.

In the USA, in the second quarter of 2021, the quarterly personal consumption expenditure price index² continued to accelerate and reached 3.9% yoy (accelerated to 4.2% in July): Inflation in the USA in the second quarter was higher than expected in the previous program, mainly due to rising prices conditioned by the fast resumption of the industrial activities following the removal of the pandemic restrictions (growth of air ticket prices), as well as the growing demand for used cars. The impact of these factors will continue in the short term as well. The rise in energy and food prices also contributed to the high inflation. In the short run, the high prices of these commodities and the recovering demand will continue to help keep inflation at a high level. The growth in the prices of these commodity groups is conditioned both by the disruption of the world value chains under the direct impact of the pandemic and by the lower growth of supply compared with the rapidly growing demand in the context of the rapid recovery of the domestic economy. In such a situation, however, long-term inflation expectations remain anchored around the inflation target. In the medium term, along with offsetting the impact of supply factors and expansionary fiscal policies, inflation will begin to decrease, approaching the target level.

In order to ensure the continuity of labor market recovery and smooth operation of financial markets, and given the small impact of the current acceleration of inflation, largely due to supply factors, on long-term inflation expectations, it is estimated that the FRS will still keep the policy interest rate at zero in the short term horizon, and asset purchasing programs will continue at current levels until the end of 2021.

Economic developments in the Eurozone. Cancellation of anti-pandemic measures in the Eurozone has facilitated faster-than-expected recovery of the economy in the second quarter of 2021. According to Eurostat estimates, the economic growth of the Eurozone in the second quarter of 2021 totaled 14.3% yoy, which was mainly due to the activation of the services sector amid the rapid recovery of private consumption. Despite the widespread use of vaccines, the growth in the number of diseases with a new strain of the virus will contribute to the slower-than-expected recovery of the economy by the

² The personal consumption expenditure price index target is 2%, which on average is commensurate with headline inflation of 2.3%.

end of the year. Given the higher actual economic growth, annual economic growth in 2021 is now projected at a higher than previously estimated level of 5.2%.

Inflation in the second quarter of 2021 totaled 1.9% yoy, which was close to the ECB target with core inflation totaling 0.9% yoy. In the third quarter of 2021, inflation in the Eurozone, as expected, continued to accelerate, which, according to projections, will continue until the end of the year due to the recovery of demand and high prices for raw materials and food. Inflationary developments were mainly driven by the rise in energy prices.

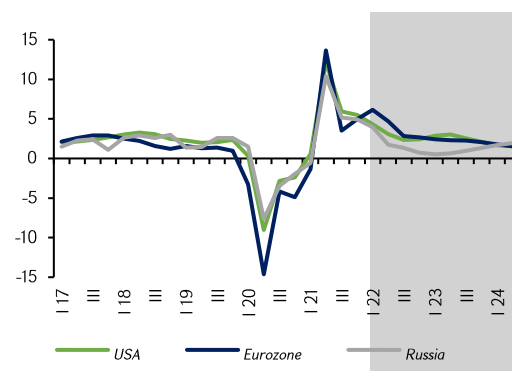
Although domestic demand has recovered somewhat due to the recovery of the economy and successful implementation of the vaccination, it still remains sluggish and continues to have a restraining effect on inflation. Subsequently, under these developments, the ECB will maintain the current expansionary monetary conditions throughout the horizon.

Economic developments in Russia. Current developments in the Russian economy show that in the second quarter of 2021, gradual recovery of the economy continued. According to Rosstat, in the second quarter of 2021, the Russian economy experienced a higher-than-expected growth of 10.3% year-on-year. Current trends also indicate a rapid recovery in demand. According to the Central Bank of Armenia projections, amid rising international oil prices and the recovery of global economy, growth is expected to reach 5.0% by 2021.

Russia's average quarterly inflation continued to accelerate in the second quarter of 2021, totaling 6.0% year-on-year against 5.4% of the previous quarter, and continued to stay above the target 4%. Furthermore, in July and August 2021, inflation continued to accelerate, reaching 6.7%. Thus, due to higher-than-expected growth of demand, inflation in Russia will be at a higher level than previously projected. Under these circumstances and given high inflation expectations, the Central Bank of Russia will continue tightening monetary conditions, ensuring the return of inflation to target level in the last segment of the horizon. In this context, in April and June 2021, the RCB raised policy rate by 0.5 percentage points, and then by another 1.0 percentage point in July, setting it at 6.5%³.

Chart 3

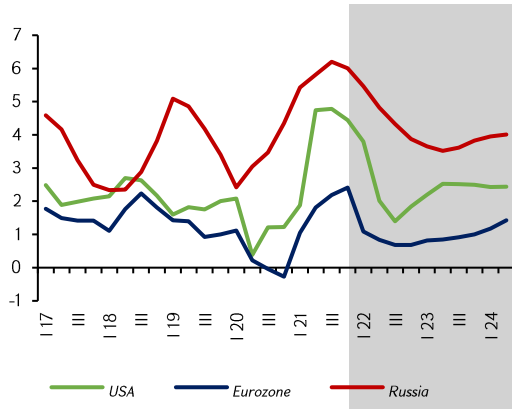
Economic growth in trade partner countries (%)



Source: BLS, Eurostat, Rosstat, CBA projections

Chart 4

Inflation in trade partner countries (%)



Source: BLS, Eurostat, Rosstat, CBA projections

³ At September 10 sitting, the RCB Board decided to raise the policy interest rate by 0.25 percentage points to 6.75%.

Developments in commodity and food product markets. Due to the expansionary economic policies of the leading economies, in the commodity markets, commodity and food prices will continue to stay at high levels throughout the forecast horizon.

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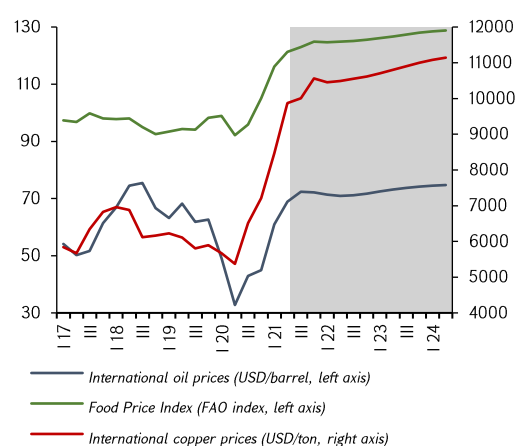
International copper prices continued to rise in the second quarter of 2021, but by the end of the quarter prices fell slightly due to the control imposed by the Chinese government over copper reserves, as a result of which the excess copper appeared in the market and contributed to lower prices. During the second quarter of 2021, the growth of international copper prices was 14.5%, qoq: Subsequently, short-term copper prices are currently projected at lower level than before. According to current CBA projections, growth rate of international copper prices will accelerate in the medium term due to large-scale infrastructure projects implemented in the USA, as a result of which the international prices of copper at the end of the horizon will be around 11 thousand US dollars per ton.

International oil prices, were affected by the expectations of a slowdown in demand growth caused by the spread of a new wave of infection, and began to decline in the third quarter from the high levels observed in the second quarter, but were still above the level projected in the previous program of the Central Bank. In the second quarter of 2021, the growth of prices was 13.3%, qoq. As a result, the CBA projections for both the short-term and medium-term sector have been revised upwards compared to the previous program. By the end of the projected horizon, international prices for Brent oil will be around \$75 per barrel.

Food prices continued to rise in the second quarter of 2021, stabilizing by the end of the quarter, whereas prices of some products even dropped. In the short run, with limited yields and high demand, prices are expected to be around current levels. Prices in the sugar market began to rise at the beginning of the third quarter amid expectations of small volumes of new crops in Brazil, which will continue in the short term. Because of unfavorable weather conditions, the expectations of new crop in the grain market have been revised downwards, as a result of which inflationary developments are expected in this commodity group. No significant inflationary developments are expected in vegetable oil markets and prices will continue to fluctuate around current levels.

World food prices will continue to remain at high levels in the short and medium term, in line with the scenario of continuing expansionary economic policies in developed economies.

Chart 5
International commodity and food prices



Source: World Bank, FAO, CBA projections

2.2. Forecasts

2.2.1. Inflation and Monetary Policy

Inflation has continued to rise in the current quarter. Inflation totaled 0.4% in August, bringing the total 12-month inflation to 8.8% at the end of the month. During this period, the 12-month core inflation rate also augmented to 8.0% in August. Developments in both the external and internal sectors of the economy continue to exert strong inflationary pressures on prices. The Central Bank estimates that at present the policy interest rate needs to be increased by 0.25 percentage points.

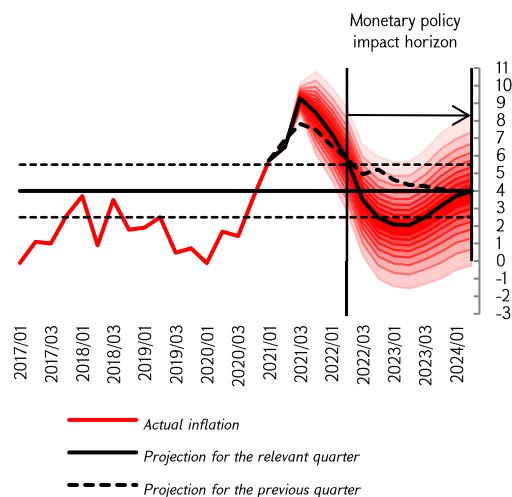
Amid faster-than-expected economic recovery in partner countries, commodity and food prices continue to rise, sending inflationary pressures to the domestic economy. According to current indicators, the dynamics of economic growth in Armenia is assessed as more positive than expected, conditioned mainly by the evidences of growth in the sectors of agriculture and services. On the other hand, due to positive developments in the external sector and the growth of remittances, advanced recovery of consumption in the domestic economy continues to contribute to the recovery of private demand. At the same time, the relatively slow growth of private investments still persists. It is estimated that fiscal policy in 2021 will have a mainly restraining effect. As a result of advanced developments in domestic demand amid relatively low rates of expansion of production capacities, GDP gap is estimated as positive, which creates additional inflationary pressures on the prices of goods and services. It is estimated that the growth of short-term inflation expectations of the society is in line with the expected developments and is conditioned both by the actual acceleration of inflation and the impact of the progressive recovery of demand. Accordingly, in order to manage the risks of their further growth, ***the CBA Board considers it necessary to raise policy interest rate by 0.25 percentage points at this stage.*** Under the medium-term tightening monetary conditions, as well as small restraining fiscal effects, positive GDP gap will be off-set. Current appreciation of the real exchange rate will in turn contribute to the regulation of demand and further decrease of inflation.

According to the Central Bank estimates, recent tightening of monetary conditions has a sufficiently restraining effect in terms of the progressive growth of demand relative to supply and the subsequent regulation of inflationary pressures, as a result of which, inflation will approach its target of 4% already in 2022 and stabilize around it.

Inflation totaled 0.4% in August, bringing the total 12-month inflation to 8.8% at the end of the month. During this period, the 12-month core inflation rate also augmented to 8.0% in August.

Chart 6

Inflation (12-month) projection probability distribution for 3-year horizon



Source: NSS (RA National Statistical Committee),
CBA projections

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Table 1

Period	Inflation interval Projection Probability distribution				
	<1.0%	1.0-2.5%	2.5-5.5%	5.5-7.0%	>7.0%
Q III 2021	0.0%	0.0%	0.0%	0.0%	100.0%
Q IV	0.0%	0.0%	2.1%	13.8%	84.1%
Q I 2022	0.0%	0.2%	13.6%	29.7%	56.5%
Q II	0.4%	3.0%	40.1%	31.4%	25.2%
Q III	9.7%	20.6%	54.9%	11.4%	3.4%
Q IV	24.5%	26.2%	41.7%	6.0%	1.6%
Q I 2023	30.6%	26.8%	36.8%	4.6%	1.2%
Q II	31.6%	26.4%	36.1%	4.6%	1.3%
Q III	25.8%	24.1%	40.2%	7.2%	2.7%
Q IV	19.8%	20.2%	42.5%	11.1%	6.3%
Q I 2024	14.6%	17.4%	43.9%	14.2%	9.9%
Q II	12.4%	15.8%	43.6%	15.8%	12.5%

2.2.2. Economic Activity⁴

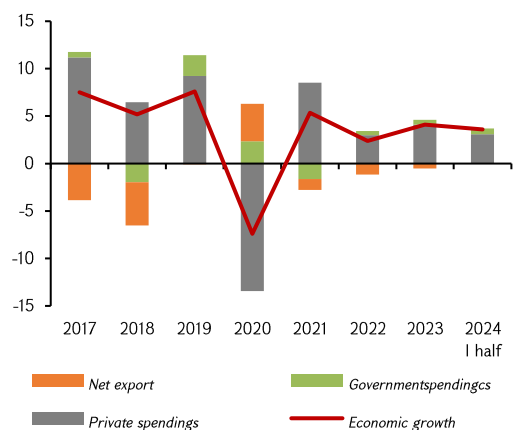
Following the deep economic downturn caused by the spread of the pandemic last year and war in Artsakh, economic growth is expected to recover somewhat in 2021, largely due to the acceleration of private consumption.

The restrained demand of the previous year will be reflected to some extent during the current year, mainly through the acceleration of private consumption at the expense of private savings' decrease. Private savings, however, will still remain above the pre-crisis level provided precautionary measures are in place. The growth of private spending in 2021 will be 9.7% due to a 12% increase in private consumption and a 4.1% decline in gross accumulation of private fixed assets. Thus, the main driving force in terms of demand will be the growth of private consumption, and private fixed assets will still be kept relatively low due to the gradual reduction of economic and political uncertainty in the country, which will negatively contribute to future economic growth. The contribution of government spending to economic growth will be negative, while the net export contribution will be slightly negative due to the somewhat faster acceleration of imports compared to exports. As a result, economic growth in 2021 will be slightly higher than previously projected, amounting to about 5.4%, mainly due to the upward revision of private spending.

Following the deep economic downturn caused by the spread of the pandemic last year and war in Artsakh, economic growth is expected to recover somewhat in 2021, largely due to the acceleration of private consumption.

Chart 7

Contribution of demand⁵ components to growth (percentage point)



Source: NSS, CBA projections

⁴ For a detailed economic growth forecasts, see the "GDP Projection Probability Distribution", Chart 18, Table 2.

⁵ Demand does not take into account changes in inventories, as it is calculated by the CBA as a balance sheet item and does not reflect the real level of investment. Therefore, growth calculated by supply and demand factors can vary.

See: https://www.armstat.am/file/article/sv_04_19a_112.pdf

Economic activity in the medium term has not been significantly revised compared to the previous program. GDP growth slow down a little and will be around its long-term steady state level of 3.5%. The contribution of public spending to economic growth will be moderate, as the Government will adhere to fiscal consolidation rules, aimed at the gradual reduction of public debt, and net exports at the end of the horizon will still have a negative impact because of the gradual growth of imports relative to exports in parallel with the recovery of private demand. International tourism is also expected to recover, with exports and imports growing faster.

External Demand. Current account developments in 2021 will take place amid the steady recovery of global and domestic economy, international copper, as well as continuing high level of money transfers. With these expected developments, current account deficit to GDP ratio for 2021 will be somewhat lower than in the previous projections. Revisions mainly relate to trade balance and remittances. Moreover, global tourism sector will remain sluggish because of the increase in the number of cases of coronavirus, as well as the disproportionate distribution and actual use of vaccines. The forecasts for the real growth of exports of goods and services for the second half of the year have been slightly revised upwards. Developments in this area will be conditioned by the maintenance of a high level of export volumes in the context of high demand and high prices for copper. As copper prices remain high, positive trends in the mining sector will continue. Export of services has been revised upwards, reflecting more favorable trends in the actual indicators of tourism compared with the previous program projections. As a result, the growth rate of real exports of goods and services will be in the range of 7.0-9.0%.

According to the current and expected developments in the domestic demand, which show that its recovery and growth are proceeding at a somewhat high pace, real import of goods and services will accelerate to a certain degree, and in 2021 will be in the range of 7.0-9.0%, which is higher than previous projection. It should be noted that, unlike tourism exports, import of tourism will lag behind because of the slow pace of vaccination in Armenia compared to the rest of the world, which will be reflected in other countries' cautious policy of accepting tourists from Armenia.

Commensurate with the previous program projections, Russia's economic recovery and gradual easing of restrictions lead to the resumption of seasonal labor migration. As a result, the expected growth of remittances of seasonal workers will be in line with the scenario of previous projections. At the same time, remittances from

the United States will presumably higher be than previously projected, given more positive-than-expected current developments. Subsequently, net inflow of total remittances will grow by about 23-26% in 2021, which is higher than the previous projections.

If these projections materialize, current account deficit/GDP ratio in 2021 will grow slightly compared to the previous projection, but still will linger within the previously projected range of 1.0-3.0%.

In the medium term, in parallel with the trends of recovery of global and domestic economies and relatively stable international prices, current account deficit/GDP ratio will gradually approach the estimated equilibrium level of 4.0-6.0% and stabilize around it.

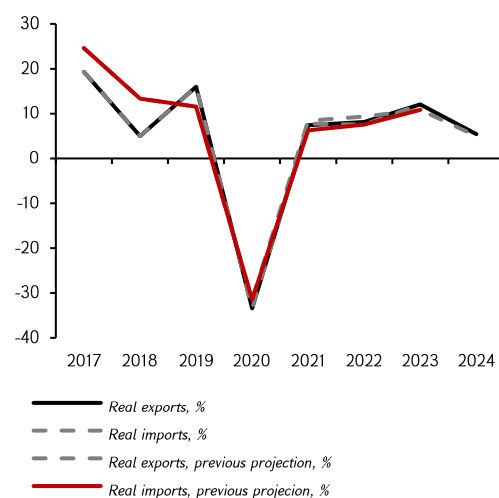
Fiscal Policy. Fiscal policy's impact on aggregate demand for 2021 was estimated based on the indicators of the Republic of Armenia 2021 State Budget Law, the adjusted budget program⁶, and the subsequent Central Bank projections.

Parallel to the recovery of the economy, the growth of government tax revenues in the second quarter of 2021 tended to accelerate. The over-fulfillment of tax revenues compared to the adjusted program of the state budget for the first half of the year made 107.6% or about 53.5 billion drams. It should be noted that along with the revision of the economic growth target by the Government, the annual tax program indicators have also been adjusted upwards. The annual tax/GDP⁷ ratio estimate is 22.7%, i.e. 0.3 percentage points higher than in 2020. Tax revenue projection also includes expected revenues from the application of the export license fee⁸, which, according to estimates, will amount to about AMD 35 billion by the end of the year. According to the Central Bank estimates, public expenditures will total 98.7% of the annual program adjusted in line with the Government decisions. The low level of expenditures is conditioned, in particular, by expectations of only partial disbursement of external financing against incurred capital expenditures and the resulting co-financing savings. Thus, in January-June 2021, capital expenditures on externally financed programs amounted to only 51.7% of the semi-annual budget. In such a situation, according to the Central Bank, in 2021 expenditures/GDP ratio will total 27.6%, decreasing by 3.0 percentage points compared to the previous year.

According to the CBA estimates, in 2021 deficit/GDP ratio will total 3.7%, down by 1.7 percentage points against 2020. While the deficit will decrease compared to 2020, it will still be above the average 3.1%

Chart 8

Change in real export and import of goods and services in the medium term (%)



Source: NSS, CBA projection

⁶ The adjusted program is the current quarterly and annual program adjusted in line with the Government decisions.

⁷ 2021 GDP is the CB forecast, which has been revised upwards.

⁸ See <https://www.e-gov.am/gov-decrees/item/36838/> and <https://www.arlis.am/DocumentView.aspx?docid=154959>

deficit/GDP indicator of the last 20 years. As a result of adjusting government expenditures and revenues from unaggregated demand flows in 2021 versus 2020 (when fiscal policy expanded significantly), 0.8 percentage point revenue expanding (GDP growth rate will exceed revenue growth rate by the end of the year) and 2.4 percentage point expenditure contractionary effects are expected.

Given that according to 2021 state budget law indicators, the Government debt in 2021 will still be slightly above 60% GDP threshold, implementation of the outlined current expenditure scenario assumes that the Government in 2021 will stay in the framework of an exceptional case defined by the current fiscal rule as well.

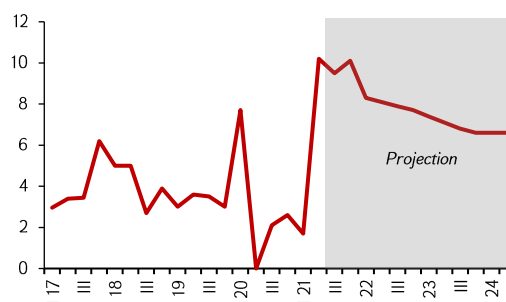
In the medium term, based on the 2022-2024 draft MTEFP, it is expected that, in parallel with the recovery of the economy, the Government will implement fiscal consolidation. Within the framework of fiscal rule, this will ensure a gradual reduction of the budget deficit and debt burden due to the higher tax revenues and the improvement of the expenditure structure. As a result, restraining of fiscal policy is projected for 2022, and a neutral impact for 2023.

Labor Market⁹. In 2021, nominal wage growth rate of the private sector will remain at current levels, around 7.9%. In the medium term, nominal wage growth in the private sector will be in line with the developments of its fundamental measures productivity and inflation. As a result, in 2022, along with the slowdown in inflation and stabilization around its target, nominal wages in the private sector are projected to grow by 8%, and by the end of the projected horizon they will stabilize at around 6.9%.

Along with the upward revision of economic growth, and due to the sharp resumption of seasonal migration as a result of the elimination of restrictions on international passenger flows since the beginning of the year, a lower unemployment rate of 15.7% is expected in 2021. According to observations, growth of migration flows resulted in the decrease of the number of unemployed and economically inactive labor resources. If these trends persist in the medium term, the unemployment rate will remain lower than the pre-crisis level, at 16.0-17.0%.

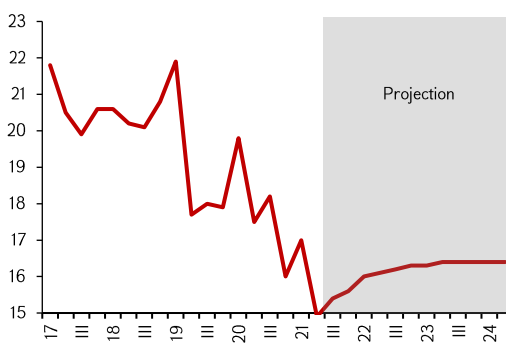
By the end of 2021, the growth of unit labor costs of enterprises will accelerate slightly due to the higher growth in private sector wages relative to productivity, and at the end of the forecast horizon will stabilize around its fundamental measure, i.e. target inflation rate of 4%.

Chart 9
Nominal wage growth in private sector, y/y (%)



Source: NSS, CBA projection

Chart 10
Unemployment level (%)



Source: NSS, CBA projection

⁹ The labor market data for 2021-2024 are the Central Bank projections based on the actual 2021 first and second quarter data. The growth indicators presented in this subsection are relative to the same reference period last year, unless otherwise specified.

To sum up, in the short run there will be weak inflationary pressures from the labor market, which will be gradually off-set in the medium term due to the accelerating economic growth and recovering productivity.

2.2.3. Comparison with the Previous Projection

Medium-term economic growth forecasts of all partner countries have been revised upwards in light of the quick recovery of economies due to successful implementation of vaccination programs.

The short-term economic growth in one of the main trade partners of Armenia, USA, will be in line with previous forecasts, and somewhat higher in the medium term, due to the positive effects of infrastructure programs.

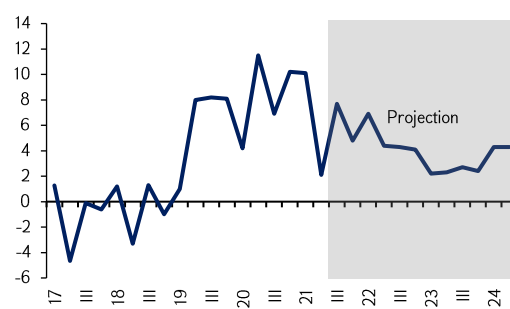
Amid higher domestic demand (as well as a more favorable external environment) and temporary supply factors, inflation has been and will be higher in the medium term than previously projected.

In the context of the successful vaccination process in the Eurozone, the recovery of domestic demand has been and will continue at a faster pace than previously projected. External demand will also have a greater contribution than previously estimated. The services and industry sectors in particular contribute to the rapid recovery of the economy on the supply side. According to the current projections of the Central Bank, gross output in the Eurozone will exceed the pre-crisis level in the fourth quarter of current year.

Under the above developments, as well as due to the greater-than-expected impact of some supply factors, inflation in the Eurozone will be at higher levels than projected before throughout the projected horizon. However, it should be noted that after off-setting the temporary factors, supply in the medium term will slow down significantly and gradually approach the target level in the end of the horizon.

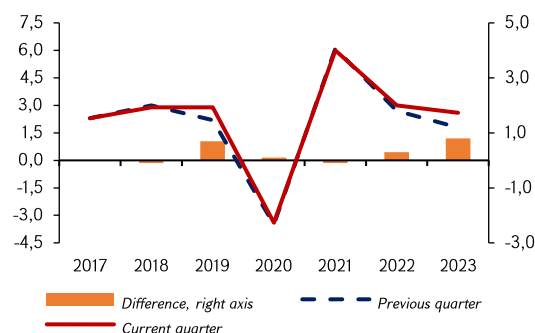
Due to higher external and domestic demand, growth in Russia has been revised upwards in the short run and downwards in the medium term largely under the influence of more restrictive monetary policy conditions. More inflationary developments in the international oil market will have a more positive impact on economic growth than previously projected.

Chart 11
Unit labor costs growth, y/y (%)



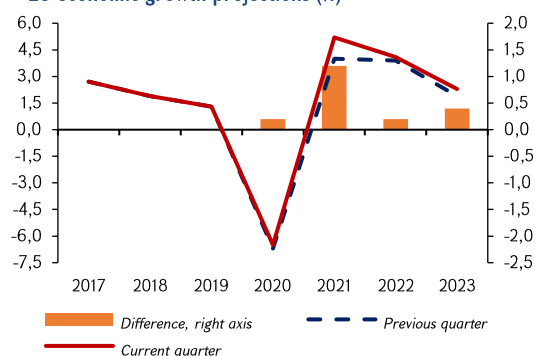
Source: NSS, CBA projection

Chart 12
USA economic growth ¹⁰ projections (%)



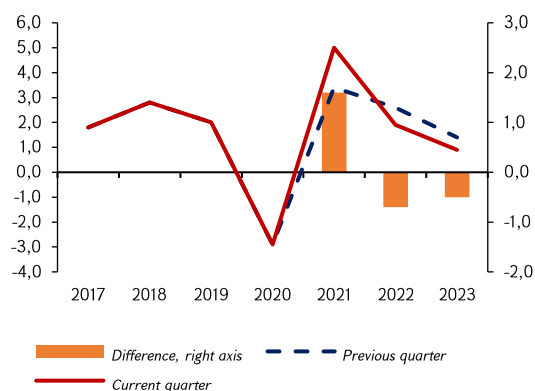
Source: BEA, CBA projection

Chart 13
EU economic growth projections (%)



Source: Eurostat, CBA projection

Chart 14
Russian economic growth projections (%)



Source: Rosstat, CBA projection

¹⁰ Historical series of the USA gross domestic product and economic growth for 2018-2020 have been revised.

Due to the higher growth of both short-term supply and demand over supply, inflation in Russia in the short run will be at higher levels than previously projected. In the medium term, with the evaporation of supply factors, as well as tighter monetary conditions, inflation will slow down, stabilizing around the target at the end of the horizon.

World food prices have been revised upwards over the projected horizon as a result of faster (compared to previous estimates) growth in global demand relative to supply.

In the context of the rapid recovery of economies amid successful course of the vaccination process and the constrained global oil supply, oil prices have been and are projected to be at higher levels over the medium term.

As a result of partial saturation of global demand for copper (China, the world leader in copper consumption, has limited copper storage possibilities for enterprises), copper prices have fallen in the short term and are lower than previously projected. Driven by large-scale USA infrastructure projects, the growth rate of copper prices in the last part of the forecast horizon will accelerate significantly. Subsequently, prices will exceed US\$ 11 thousand per ton, exceeding the level of previous projections.

Armenia's economic growth estimates for 2021 have been revised upwards, and have not changed significantly along the projected horizon.

In 2021, economic growth has been significantly revised upwards and is currently estimated at 5.4% compared to the previous 4.6%, because of the expected higher level of domestic demand. In terms of sectors of the economy, the main revision is due to the expected higher growth in agriculture and services.

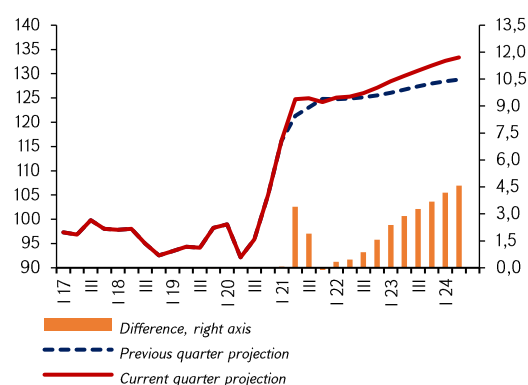
As a result of lower expected growth of the manufacturing, growth in the industrial sector has been revised slightly downwards compared to the previous projection. However, the mining industry is expected to remain strong throughout the year, which will be facilitated by persisting high level of international metal prices.

The services sector has also been revised upwards, mainly due the stronger-than-expected recovery of private consumption. Revisions of projections for this sector were also conditioned by the expected more positive developments in domestic tourism, as well as expected higher substitution of outbound tourism and domestic trade and services.

Growth in the construction sector has been slightly revised downwards, as construction at the company's expense has not actually recovered and will remain low, and construction carried out at the expense of the state budget will somewhat weaken by the end of the

Chart 15

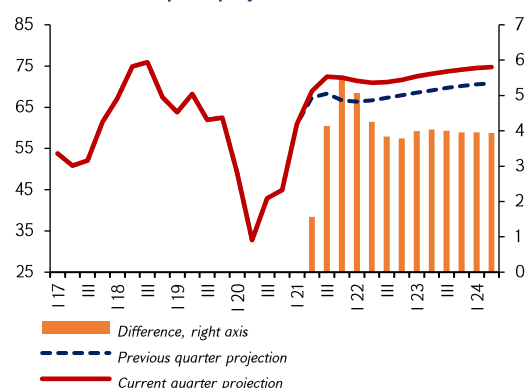
International food price projections



Source: FAO, CBA projection

Chart 16

International oil price projections

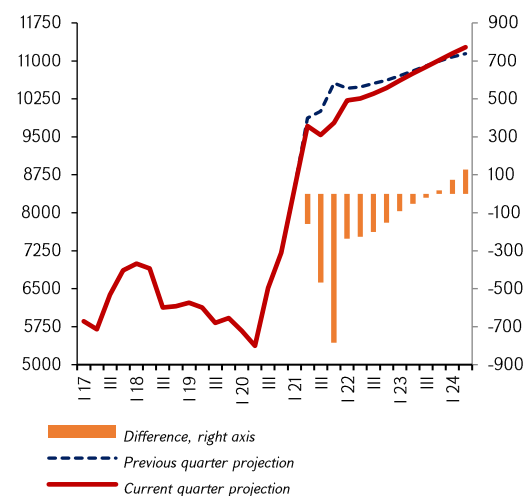


Source: World Bank, CBA projection

Armenia's economic growth estimates for 2021 have been revised upwards, and have not changed significantly along the projected horizon.

Chart 17

International copper price projections



Source: World Bank, CBA projection

year, compared to the high growth observed at the end of the previous year and the beginning of the current year.

Growth in the agricultural sector has been revised upwards, mainly due to the actual high growth in the plant growing. Despite this, the prices of seasonal goods, which have grown significantly in recent months, according to the Central Bank, are mainly conditioned by the higher exports of horticulture.

Compared to the previous projection, the economic growth projection throughout the horizon has not changed significantly, and is expected to stay around its steady-state.

Table 2

<i>Probability Distribution of Real GDP Growth (Cumulative) Projection</i>		
Period	30% Probability Interval	90% Probability Interval
January-December 2021 / January-December 2020	5.1 – 5.7	4.1 – 6.7
January-December 2022 / January-December 2021	1.6 – 3.5	(-1.2) – 6.8
January-December 2023 / January-December 2022	3.2 – 5.3	(-0.2) – 9.1
January-December 2021 / January-December 2020	2.7 – 4.8	(-0.4) – 8.6

In 2021, the current account deficit-to-GDP ratio will be higher compared to previous projection, because of some acceleration of domestic demand, which will be reflected in the acceleration of import recovery. The latter will to some extent exceed the high level of remittances from the United States, projected in the previous program.

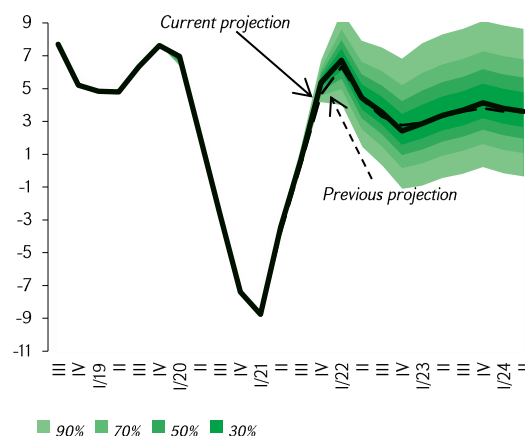
Compared to the previous projection, fiscal impulse estimate is almost unchanged: revenue-expansionary and expenditure contractionary effects are estimated under assumption of full implementation of adjusted tax program and 98.7% (CBA assessment) adjusted expenditure program.

According to the current projection, general inflation in the short run, will be somewhat higher than projected under the previous program, while core inflation, slightly lower. High level of inflation in the short-term period will be conditioned by unusually high seasonal increase in prices for seasonal agricultural products, particularly vegetables, and spill-over effects of inflationary developments in the international commodity markets will remain at the level close to the previous estimates.

According to the current projection, general inflation in the short run, will be somewhat higher than projected under the previous program, while core inflation, slightly lower.

Chart 18

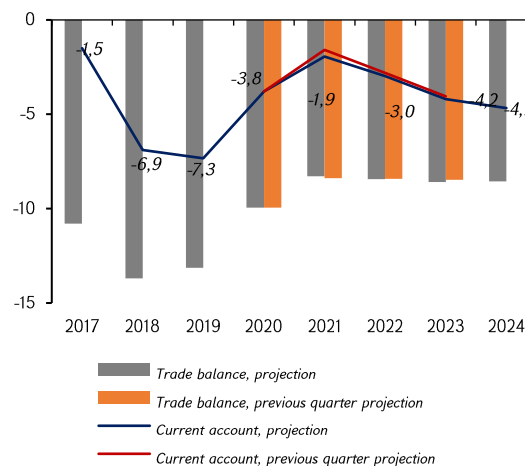
Real GDP growth (cumulative) forecast' probability distribution for 3-year horizon



Source: NSS, CBA projections

Chart 19

Current account/medium-term GDP projections (%)



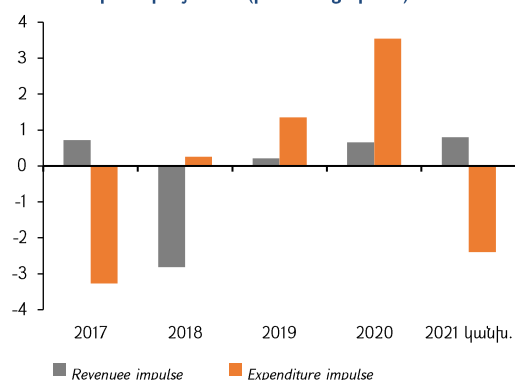
Source: NSS, CBA projection

¹¹ The growth rate of each quarter is calculated as the cumulative growth rate for the last four quarters.

The recovery of domestic demand, on the other hand, will proceed at a faster pace than expected, which in case of limited recovery of the potential capacities will exert additional inflationary pressures on inflation. Accordingly, inflation growth in the short run will be higher than in the previous program. However, due to the neutralization of the current high inflationary effects of seasonal food in the medium term, as well as the lower rate of projected core inflation under restrained monetary and fiscal conditions, it will decrease, and at the end of the projected horizon will stabilize around the target level (see Chart 1. Inflation Projection Probability Distribution).

Chart 20

Fiscal impulse projection (percentage point)



Source: CBA estimate

2.2.4. Main Assumptions and Risks

This section presents the main assumptions underlying the Monetary Policy Program for the third quarter of 2021, and the risks to implementation of the program coming from external sector developments, fiscal policy, emerging trends and short-term projections.

Box 1

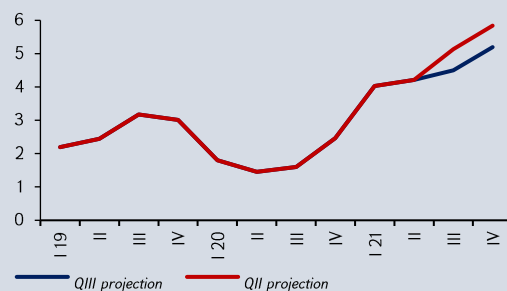
The results of survey on expectations by households and the financial system

As a result of the expected declining behavior of core inflation, short-term inflation expectations will be lower than previously projected.

According to a survey conducted by the Central Bank on households and financial sector organizations' expectations for a number of macroeconomic indicators in QII 2021, inflation expectations for the first quarter have risen somewhat. Specifically, the share of households expecting high and very high inflation rates for a one-year horizon has grown to a certain degree. At the same time, there has been a splitting of opinions (those expecting high prices and those expecting lower prices) because of the decrease in the share of households that in the past were expecting low prices. In addition, the surveys also reflect higher level of uncertainty of households about the expected inflation in the second quarter.

Chart 21

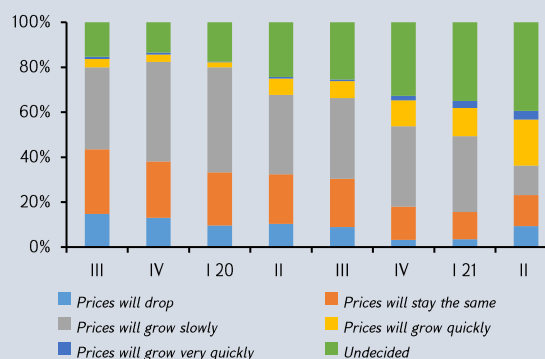
Short-term inflation expectation estimates (%)



Source: CBA estimate

Chart 22

Household inflation expectation surveys



Source: CBA

Projection Judgments

Table 3

Main Judgements and Assumptions	Possible developments if these assumptions prove to be correct
Despite the rapid spread of the new delta-type coronavirus, there will be no widespread economic restrictions imposed in both developing and developed countries. Large-scale infrastructure investment in the USA will contribute to additional 0.5% growth in economic potential, which will be reflected in the neutral interest rate, as well as in long-term growth rate of real copper prices. The acceleration of inflation in main partner economies continues to be mainly conditioned by short-term supply factors. Expansionary economic policies in advanced economies will continue for almost the entire forecast horizon.	✓ The economic impact of further spread of coronavirus on the global economy and, in particular, on the main partner economies of the Republic of Armenia will be modest. ✓ Armenia's external balance position and real equilibrium appreciation rate will be higher in the projected horizon. ✓ As the medium-term inflation expectations in advanced economies increased only marginally, the monetary authorities will continue to keep expansionary monetary conditions. ✓ Prices in the international markets of raw materials and food products will remain at high levels.
In the context of persisting high liquidity in international financial markets, country risk premium of Armenia in the forecast horizon will stay below the long-term sustainable levels.	✓ The country risk premium in the third quarter was somewhat lower than in the previous projections. In the medium term, along with the slow decline in global financial liquidity, it will start to recover, converging to long-term sustainable level.
Expanding revenue and restraining expenditure effects of fiscal policy for 2021.	✓ In 2021, 0.8 revenue-expansionary and 2.4 expenditure-restraining impacts are estimated at full execution of the adjusted state budget revenue program and 98.7% execution of the adjusted expenditure program (CBA estimate). According to projections based on the main indicators of the 2022-2024 MTEFP, in the medium term, particularly in 2022, a restraining fiscal policy impact, and in 2023 a neutral impact is expected.
Modest restraining effect of the pandemic on the RA economy.	✓ Vaccination in Armenia will accelerate to some extent, with the prospect of implementing a vaccination program for about 20-30% of the population by the end of the year, which does not rule out the possibility of new outbreaks, although even in the event of a new outbreak, the economic consequences will be negligible during the year, and the probability of severe government restrictions is low ✓ With the gradual lifting of travel restrictions, the recovery of inbound tourism in Armenia in 2021 will be within 41.7% of the 2019 level, but the outbound tourism, in view of current pandemic trends and new restrictions on international passenger traffic in partner countries, will recover at a slower pace, reaching around 32.5% of the 2019 level.

There is some negative contribution from the extractive industries to the growth of the level of GDP potential.	✓ Monetary policy scenario does not incorporate operation of Amulsar mines and Alaverdi copper-molybdenum plant. Their potential impact is reflected in the projected risks. ✓ As a result of the logistical problems related to the operation of the Sotk mine, only about 30-35% of the previous capacity of the entire economic chain of gold mining, processing and export will be realized throughout the forecast horizon.
Changes in excise and customs rates by 2023 as a result the requirement to apply common rates within the EEU	✓ The annual impact of the excise tax change expected in 2021-2023 is estimated at about 0.4 percentage point, and the impact of the change in customs rates at 0.3 percentage point for each year.
Only a gradual reduction of economic and geopolitical uncertainties in Armenia will have a certain restraining effect on domestic demand.	✓ With only a gradual reduction in economic and political uncertainty in the country, the delay in investment will somewhat restrain the growth of domestic demand and potential GDP in 2021 and in the medium term. ✓ Problems with logistics chains in Armenia will not have a significant impact on the economic activity.
Inflation impact by supply factors in the short run.	✓ As a result of the sharp rise in international freight rates, prices of imported non-food products in the coming months will remain high (see Box 2).
Savings that grew significantly in 2020 amid economic uncertainty, are rapidly declining in 2021.	✓ The decline of savings will have positive effects on the total demand, however, in the forecast horizon they will still remain above the pre-crisis level because of the availability of precautionary savings amid persisting uncertainties.
Some replacement of the import of tourism with the consumption of domestic goods and services.	✓ Amid limited outbound tourism services because of the pandemic, along with the reduction of private savings, there is a certain replacement between import of tourism and consumption of domestic goods and services, which, according to estimates, will continue in 2022, positively contributing to the development of domestic demand.

Projection Risks

Although vaccination in many developed and developing countries has slowed down a bit, global economy continues to recover rapidly. While various restrictions and requirements applied within the framework of anti-pandemic measures in different countries still carry some risks, both in terms of narrowing supply and demand, their impact is estimated to be limited. In line with the expectations, following parliamentary elections, additional uncertainties for the Armenian economy caused by a number of political factors have somewhat weakened. In general, however, high uncertainties remain, especially in terms of the investment climate and economic outlook, reflected in relatively broad ranges of uncertainty over inflation and macroeconomic data projections. (See Chart 1. Inflation Projection Probability Distribution and Chart 2. GDP Real Growth Projection Probability Distribution). Accordingly, amid high uncertainties, the most significant quantitative risks that exist around the baseline scenario are presented below.

In terms of aggregate demand, the following risks stand out:

- External demand risks are mainly related to the prevalence and risk of new types of coronaviruses (including delta-type), which will be the key factors in determining the possibility of certain restrictions in the event of outbreaks.
- Inflationary or deflationary risks of domestic demand caused by the rapid or slow course of vaccination process in Armenia, and the spread of pandemic.
- Despite the positive developments in private consumption sector, in terms of the investment climate there are still risks of continuing cautious investment behavior. These developments may have an additional deterrent effect on aggregate demand and, by putting pressure on the further flow of investment in individual sectors, lead to even longer-term losses in terms of the economy potential.
- The impact of fiscal policy on aggregate demand largely depends on the state budget execution process in the second half of the year: in the event of higher-than-expected collection of taxes (in case of increasing the efficiency of tax administration), revenues will have an expansionary effect. In the event of higher-than-planned execution of public expenditures, including current expenditures, overall expenditure savings estimate will be lowered (the CBA's current savings estimate, which relates to external assistance programs, is 1.3% of the adjusted expenditure program), and as a result expenditure will have a smaller restraining effect.

In terms of supply, the following risks stand out:

- In case of possible disproportionate tightening of monetary conditions in the developed countries that stir up expansion and continuing tension at Armenia's state borders, there are risks of overresponse by financial markets and Armenia's higher country risk premium.
- Commodity price risks are associated with the rapid recovery of the global economy, as well as actual performance of supply factors in commodity markets (for example, crop volumes).

The risks of inflation deviating from the projection in the medium term are assessed as balanced and, in general, are still high quantitatively (see Chart 1. Inflation Projection Probability Distribution).

In addition to the above-mentioned inflation risks, there are additional potential medium-term risks to economic growth, which are bilateral, but upward risks prevail. In particular, risks are related to the following internal factors:

- Uncertainties related to the development of the Amulsar mine and Alaverdi copper smelter, which pose an upward risk.
- Implementation of projects within the framework of € 2.6 billion EU Eastern Partnership assistance package, which is an upward risk.
- In case of possible persistence of economic and political uncertainties in Armenia, there will be additional negative risks of investment reduction.
- Probability of a decrease of labor resources as a result of possible emigration, which is a downward risk.
- Uncertainties about the government's strategy for restoring the economy's potential, the extent and content of possible reforms, which can be considered as a balanced risk.

In general, as some uncertainties remain regarding further politico- military and economic developments, the Central Bank seeks to reduce the potential risks arising from these uncertainties by modeling and evaluating different scenarios of further developments and considering the alternatives of policy response, which will allow to react adequately at the first reasonable signs of emergence of those risks.

3. ACTUAL DEVELOPMENTS IN QII, 2021

3.1. Inflation

3.1.1. Fulfillment of the Inflation Target

The monetary policy to be implemented during the reporting period was based on the assumptions that despite the slowdown in the spread of the epidemic in the third quarter of 2020, there was a certain economic recovery, the persisting uncertainties relating to reversing of the pandemic would curb and delay the recovery of external and domestic economic activity and aggregate demand. In light of this situation and the low inflation environment, central banks of the main partner countries of the Republic of Armenia and the Central Bank of Armenia, would continue to pursue an expansionary monetary policy, accompanied by a significantly expansionary fiscal policy pursued by governments. With the expected economic developments, the Central Bank tended to continue easing monetary conditions further, considering that it will be necessary to maintain the expansionary stance in the medium term as well, in order to stabilize the 12-month inflation in the projected horizon around the target 4%.

In the first half of the reporting 12-month horizon, as expected, low inflation environment persisted. Thus, under the martial law declared in the second half of 2020 in Armenia, in the wake of the outbreak of a new wave of coronavirus pandemic, and the high level of uncertainty related to the economic outlook, low economic activity and weak gross demand persisted. In such a situation, the government implemented expansionary fiscal policy aimed at promoting social and economic assistance. However, amid the accumulated great uncertainty, households demonstrated a cautious attitude towards consumption, which has outweighed the expected impact of fiscal expansion, leading to continuing sluggish domestic demand and low inflationary environment.

As a consequence of the above-mentioned developments, until December the 12-month inflation was lower than expected, amounting to 1.6% at the end of November, in light of which the Central Bank revised downwards the projected inflation path.

Positive developments in the recovery of global economic activity and external demand in late 2020 due to the expectation of large-scale use of coronavirus vaccines, combined with a number of supply factors (projected low supply of new crops, increase in freight costs, consequences of disruption of production chains) have led to a

significant growth in the inflationary environment in international commodity markets. Furthermore, it resulted in a high inflationary environment in the main partner countries of Armenia with ensuing inflationary pressures transferred to its economy through a number of imported food products. In the second quarter of 2021, due to positive developments in remittances and lending to the economy, as well as the prevailing growth of private consumption against capacity expansion opportunities, supply factors of the inflationary impact of international food prices to domestic prices were supplemented by demand factors. The latter is defined as a shock to the rapid recovery of deferred demand, as during the mentioned period, under the acceleration of inflation and inflation expectations, there was a sharp increase of the household's consumption expenditures due to the accumulated savings. Concurrently, in the conditions of martial law and economic-political uncertainties, depreciation of the Armenian dram was observed. Under the impact of the mentioned factors, 12-month inflation in the second half of the reporting period (December 2020 to June 2021) was higher than expected, reaching 6.5% in June. The great uncertainties related to the economic outlook led to somewhat higher inflation, reflected by the rising dynamics of core inflation. During the mentioned period, the 12-month core inflation grew by more than 6.0 percentage points and made 7.8% in June.

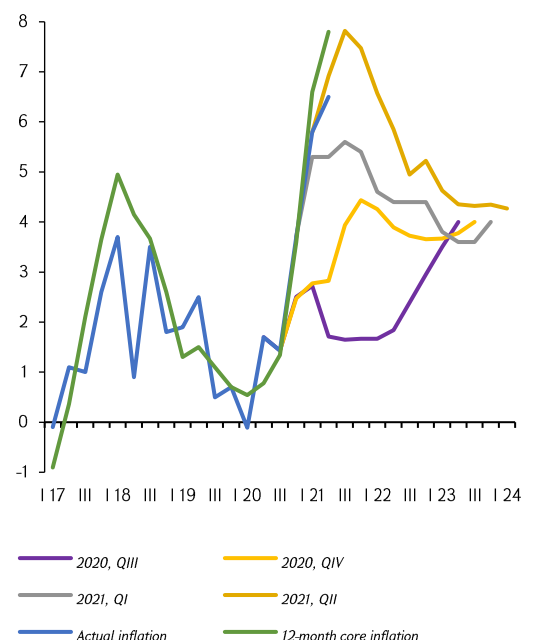
In light of these developments, the projected short-term inflation trajectory to reach the target in the last two quarters of the reporting year was adjusted upwards.

During the reporting period, amid the pandemic and the uncertainties arising from the martial law, a high demand for dram liquidity was observed in the RA financial market. As a result of the Central Bank's operations through its main instrument (7-day repo agreements), short-term market interest rates adequately responded to policy changes and were largely formed around it. During the reporting period of 12 months, given depreciation of the Armenian dram in Armenian foreign exchange market, the Central Bank, adhering to the floating exchange rate policy, took a situational participation in the foreign exchange market in order to ensure sustainability of the financial market.

Taking into account the possible inflationary developments in the existing and expected macroeconomic environment, during the reporting period the Central Bank of Armenia continued to pursue expansionary monetary policy. Moreover, following continuous increase in the amount of monetary expansion in July-November 2020, beginning from December 2020 and until July 2021, monetary expansion was significantly reduced, given the strong inflationary

Chart 23

In the first half of the reporting period, as expected, the inflationary environment remained low, but 12-month inflation accelerated sharply in the second semester surpassing the 4% target



Source: NSS, CBA

effects transmitted from the external sector and certain acceleration of inflation and inflation expectations under a number of supply and demand factors in the domestic economy. To this end, the Central Bank through comparatively big steps increased the refinancing rate by 2.25 percentage points. At the same time, the Central Bank signaled financial market that it would continue consistent mitigation of the risks of accelerating inflation expectations, without jeopardizing the recovery of domestic demand to the extent possible.

3.1.2. Prices

Inflation has accelerated since the end of 2020, and already in the first half of 2021, as expected, surpassed the target.

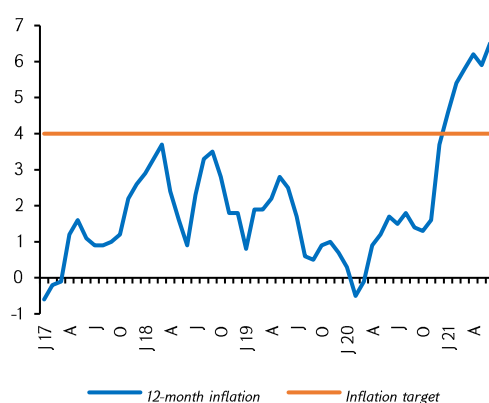
Inflation has accelerated since the end of 2020, and already in the first half of 2021, as expected, surpassed the target.

The growth of inflation was mainly conditioned by the acceleration of core inflation, which was strongly driven by the rise in prices for imported food and non-food products. The latter, as mentioned above, has been affected by changes in food prices and devaluation of the exchange rate in international markets. Thus, spill-over effects from international markets resulted in a sharp growth in the prices of "Bakery and Cereals", "Oils and Fats" and "Sugar" commodity groups in the domestic economy. The growth of international energy prices affected fuel prices. The 12-month inflation also significantly contributed to the rise in prices for pharmaceuticals, almost entirely due to the high demand during the pandemic. The acceleration of core inflation at the end of 2020 was partly caused by the significant increase in air transport tariffs, which was conditioned by the higher growth of demand of flights compared to the supply after the easing of restrictions on passenger transport applied by some countries to combat the pandemic. The sharp growth of international freight prices is also notable as it had a direct impact on inflation of imported goods (in particular, electrical appliances, clothing and footwear, as well as personal care items).

In the first half of 2021, inflationary trends continued in the main international commodity markets because of the positive expectations of demand recovery and a number of observed supply factors, which also had a direct impact on the increase in inflation of imported food. At the same time, along with the faster-than-expected recovery of demand in the Armenian economy, inflation in the mentioned period accelerated for locally produced goods and services as well, leading to the adjustment of tariffs for a number of services with rigid prices (medical, hairdressing, legal and postal services).

Chart 24

Inflation has accelerated since the end of 2020 and in the first half of 2021, as expected, surpassed the target



Source: NSS

During the year, tariffs for regulated services endured moderate inflationary fluctuations, with 0.3% year-over-year growth in the second quarter of 2021.

Among the factors of supply the high growth of vegetable and egg prices in the seasonal food product group caused by market inherent shocks can also be emphasized. Furthermore, the inflationary effect of the growth of prices of "Tobacco" and "Alcoholic Beverages", in line with the estimates, was affected by inflationary impact of the change in excise tax rates at the beginning of the year.

Table 4

Consumer price inflation by commodity items as key contributors			
<i>Designation</i>	<i>Weight</i>	<i>12-month inflation in June 2021</i>	<i>Contribution to y/y inflation</i>
Core inflation	74.39	7.83	5.82
Bread and cereals	7.68	8.13	0.62
Meat	9.66	6.56	0.63
Oils and fats	2.25	36.52	0.82
Sugar	0.44	43.17	0.19
Alcoholic beverage	2.87	8.70	0.25
Tobacco	1.59	9.00	0.14
Clothing	2.45	7.05	0.17
Footwear	1.56	5.75	0.09
Medicines and health products	0.52	11.74	0.06
Fuel	3.97	11.11	0.44
Air passenger transportation services	6.01	12.73	0.80
Education	0.56	65.63	0.37
Hospital services	2.94	3.58	0.11
Seasonal food products	9.59	6.98	0.67
Eggs	1.28	41.38	0.53
Fruits	3.65	-9.03	-0.33
Vegetables	4.67	17.52	0.82
Regulated services	15.98	0.31	0.05

Table 2

International Container Shipping Tariffs

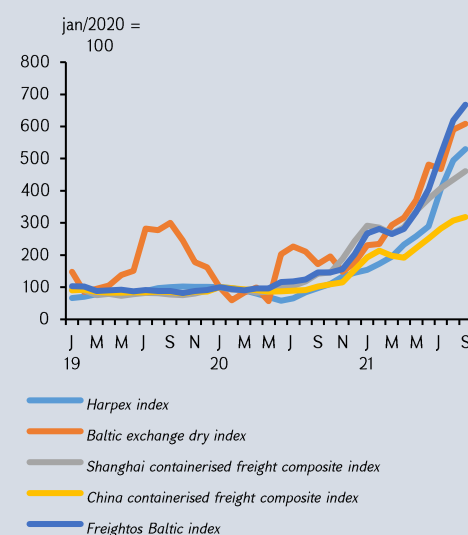
Due to the implementation of significant expansionary monetary and fiscal policies, the global economic activity rebounded strongly, which, *inter alia*, is reflected in the regular upward revision of global economic growth estimates by the leading institutions.¹² Recovery, however, is not proportionate within the sectors of the economy, in particular, under the impact of pandemic, tourism and social services are recovering more slowly, while the recovery of industry and international trade is much more pronounced. Due to the latter, demand for international cargo transportation has sharply increased, as a result of which tariffs on global container prices have reached levels that have not been observed since the 2008 global crisis.

Thus, since the end of 2020, container freight indices have been growing steadily, and in September 2021, businesses had to pay about 3-5 times more for intercontinental shipping than in September of the previous year (see Chart 25). In addition to the rapid recovery in demand, such a sharp increase in tariffs has been facilitated by a number of supply-side problems, in particular pandemic related, such as temporary cessation of operations in some ports, decline in productivity because of hygiene and social distance requirements, as well as by the impact of temporary factors, such as closing of the Suez Canal in March 2021.

The sharp rise in tariffs inevitably raises the question of how much changes in shipping costs are reflected in the dynamics of imported goods and domestic inflation. Surveys conducted mainly for developed countries show that the impact on inflation is quite moderate. Thus, according to the analysis, a 50% increase in the "harpex" shipping index in a year leads to a 0.25% increase in US inflation¹³. A similar analysis for OECD member states shows that a 50% change in container tariffs after one year results in 0.2% increase of CPI on average¹⁴. It is noteworthy that the impact on inflation also depends on the types of goods shipped. The impact on relatively large and low-cost goods (such as furniture) is, of course, more significant than on small and expensive goods, where shipping costs are a very small fraction of the retail price of goods sold¹⁵. However, for many manufacturers, shipping costs are a small part of the total cost, and sharp

Chart 25

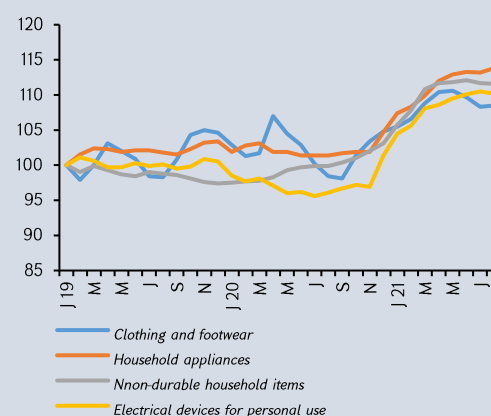
Composite indexes of container cargo transportation



Source: <https://www.harperpetersen.com/>,
<https://en.sse.net.cn/>, <https://tradingeconomics.com/>,
<https://fbx.freightos.com/>.

Chart 26

Price indices of imported non-food products



Source: CBA

¹² <https://www.worldbank.org/en/publication/global-economic-prospects>,
<https://www.imf.org/en/Publications/WEO>

¹³ Herriford T., Johnson E., Sly N. and Lee Smith A., How Does a Rise in International Shipping Costs Affect U.S. Inflation?, Macro Bulletin, Federal Reserve Bank of Kansas City, pages 1-3, December 2016.

¹⁴ OECD economic outlook, Volume 2021, Issue 1.

¹⁵ <https://transportgeography.org/contents/chapter5/intermodal-transportation-containerization/container-shipping-costs-value/>

tariff increases are still acceptable. In addition, there are evidences that the change in prices does not affect shipping under pre-signed contracts¹⁶.

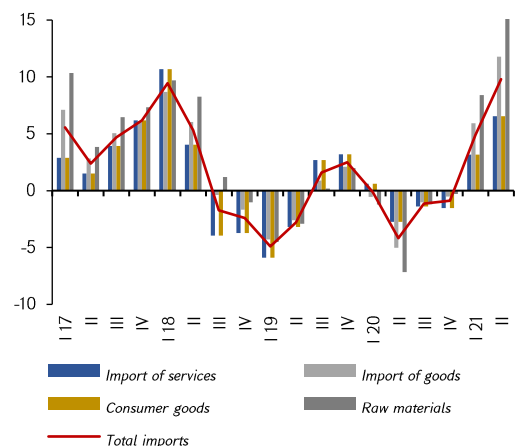
In order to assess the extent of the impact of the sharp change in international shipping tariffs on the consumer basket in Armenia, econometric analyzes were performed for imported goods. Filtering the impact of exchange rates and other factors, it was estimated that the impact of changes in shipping costs (harpex) is weak for imported food but significant for non-food products. Thus, a 50% increase in global container shipping tariffs leads to a **0.14%** increase in total inflation after six months. The results show that the impact of change in shipping costs on inflation in Armenia is smaller than in the USA or OECD countries, which is logical, taking into account that road and rail freight transport have a big role in the foreign trade turnover of the Republic of Armenia, whereas container shipping mainly affects indirectly, being reflected in the domestic inflation of Armenia's trade partners.

It should be noted that the impact of changes in shipping tariffs is mainly noticeable in the product groups of household appliances, clothing, shoes, as well as personal care items. (see Chart 26). The overall impact of the change in international shipping tariffs on the 12-month inflation rate in July 2021 is estimated at 0.17 percentage points.

Import prices. In the second quarter of 2021, food prices in the world stabilized to some extent at the levels of the previous quarter, which was reflected in the slowdown in the growth of dollar import prices in Armenia. However, the latter are still higher than in the same quarter of the previous year. During the second quarter, dollar import prices in Armenia grew by 0.6% as compared to the previous quarter, as a result of which the growth of prices in comparison with the same period of the previous year totaled 9.8% yoy. During the second quarter, growth was mainly observed in the dollar prices of intermediate consumer goods. As for the developments compared to the same period of the previous year, 9.8% yoy growth was mainly the result of the growth of oil, wheat and sugar prices. Furthermore, growth was observed on almost all imported intermediate consumption goods. Growth in consumer prices compared to the previous year was mainly the result of higher dollar prices of consumer goods from Europe, China and Russia.

Chart 27

In the second quarter of 2021, dollar prices for imports of goods and services grew compared to the same quarter of the previous year (y/y, %)



Source: CBA estimates

¹⁶ <https://www.economist.com/finance-and-economics/a-perfect-storm-for-container-shipping/21804500>

3.2. Economic Developments

3.2.1. Economy Position

During the reporting period, GDP gap remained in the positive range. Growth in the second quarter of 2021, was 13.2% (see Section 3.2.3), which was higher than the previous projection of the Central Bank and was mainly due to faster-than-expected recovery in private demand (see Section 3.2.2). In this regard, the recovery of demand in the short run is faster than economic capacities in terms of supply, which is also reflected in the fact that private investment is relatively limited in terms of consumption. As a result, GDP gap is estimated in the positive range, contributing to the expansion of inflationary environment in the consumer market. The higher-than-expected growth of remittances and the expansionary effect of the state budget also contributed to the formation of a positive demand environment.

During the reporting period, GDP gap remained in the positive range. Growth in the second quarter of 2021, was 13.2%, which was higher than the previous projection of the Central Bank and was mainly due to faster-than-expected recovery in private demand.

3.2.2. The Expenditure Aspect of the Economy

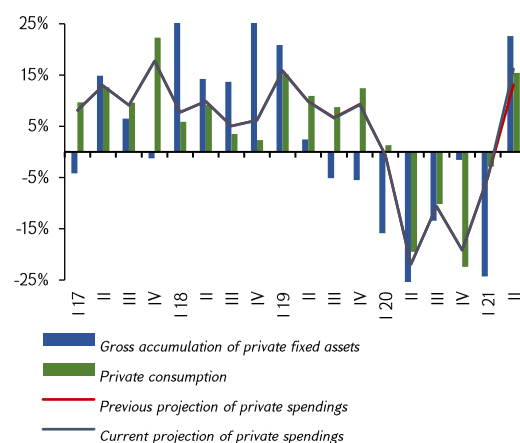
Economic growth in the second quarter of 2021 was 13.2%, which is higher than previous estimates and indicates a faster recovery than expected.

The upward shift in terms of demand side is associated both with higher actual consumption and aggregate accumulation of fixed assets in the private sector. The high growth of private consumption is due to the rapid onset of previously contained demand because of the pandemic and the war, and the gradual decline in the accumulated precautionary savings. Although the growth of private investments was higher than projected, it still remains relatively low, as the impact of the current economic and political uncertainty is particularly strong in terms of private investments. The contribution of government expenditures and net exports to economic growth was also slightly lower. The growth of private expenditures was 16.2% and was the result of 15.4% growth in private consumption and 22.6% in private fixed assets. It should be noted that the upward shift in private consumption was due to the decline in private savings compared to the previous year, as well as higher-than-expected remittances.

According to the Central Bank estimates, private demand had some inflationary impact in the reporting quarter, although supply factors continue to accelerate inflation.

During the second quarter of 2021, higher-than-expected positive developments in global and domestic economies were reflected in export and import dynamics. The real recovery of exports and imports

Chart 28
Private spending structure (y/y growth)



Source: NSS, CBA estimate

was slightly higher than projected by the Central Bank of Armenia. At the same time, it should be noted that the consumption of domestic services, particularly the phenomenon of substitution of outbound tourism with domestic tourism, continued in the second quarter.

During the second quarter of 2021, the growth of real exports of goods and services was 20.0% yoy, and the growth of real imports of goods and services was 22.3% yoy. The growth of exports and imports over the previous year is mainly the result of the negative effects of health and economic restrictions applied in the same period of the previous year. Furthermore, tourism export developments were more positive than projected by the Central Bank.

To sum up, net real export contribution to GDP in the second quarter was more negative than expected.

According to estimates, the dollar value of net remittances of individuals (includes seasonal workers income and private transfers) in the second quarter of 2021 grew by about 69.0%, which is higher than projected in the Central Bank program for the 2021 second quarter. The recovery was particularly high in the United States and Other Countries as a group. The high growth was also conditioned by the trends of restoration of seasonal migration, in line with the projections.

As a result of the above developments, in the second quarter of 2021, according to estimates, the current account deficit/GDP ratio decreased by about 6.0 percentage points due to the improvement of the services balance, as well as the growth of remittances.

Fiscal Policy¹⁷. In the second quarter of 2021, the actual budget revenues were higher than the Central Bank projections¹⁸, and expenditures were within the projections. Compared to the previous quarter, according to the calculated impulse¹⁹, revenues had a small expansionary effect on aggregate demand, while expenditures had a neutral effect. It should be noted that for the second quarter, a small restraining effect of 0.3 was estimated, both in terms of revenue and expenditure. Despite the fact that revenues were slightly higher than projected by the Central Bank, GDP growth in the same quarter exceeded the Central Bank expectations and the growth rate of revenues, as a result of which the revenue impulse was slightly expansionary. The expenditures impulse was within the projection.

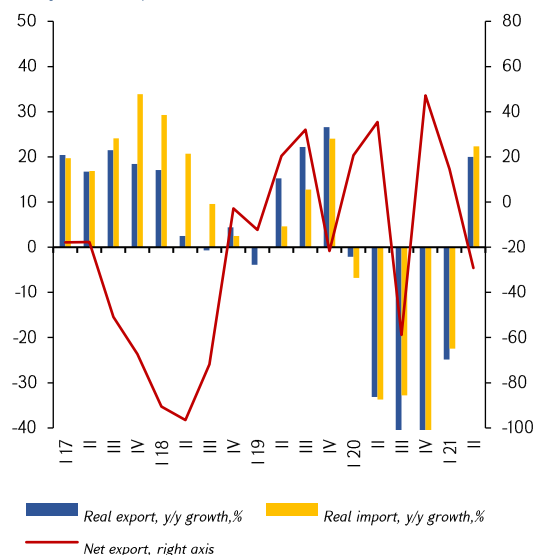
¹⁷ The review of the fiscal sector used actual consolidated budget indicators at the second quarter.

¹⁸ The estimate of quarterly revenue program is based on the actual revenue collection trends and operative monthly programs of the Finance Ministry. Expenditure projection is the Central Bank estimate.

¹⁹ There is a methodological change in the impulse calculation. According to the previous method, impulse was calculated for the same period of the previous year, and according to the new method, it is calculated for the previous quarter.

Chart 29

Net export position weakened in the second quarter of 2021 (net real export, y/y, %, positive sign means improvement)



Source: NSS

Chart 30

Modest expansionary impact of fiscal policy in the second quarter of 2021 is mainly due to revenue expansionary impact



Source: CBA estimate

In the second quarter of 2021, the actual budget revenues amounted to 101.3% of the Central Bank's assessment²⁰, mainly due to slightly higher tax revenues. It should be noted that in the second quarter of 2021, compared to the first quarter, the unified tax account also decreased (about AMD 6.1 billion), which was included in the impulse calculation as money already collected from the economy. In general, in the first half of the year, compared to the end of 2020, the unified tax account decreased by AMD 19.4 billion. Revenue impulse in the second quarter of 2021 against first quarter was 0.7 percentage points expansionary.

State budget expenditures and net lending to the economy in the second quarter were in line with the Central Bank projections. Quarterly growth of government expenditures amounted to 6.2%. Net lending to the economy was in line with the Central Bank's projection, in particular, AMD 25 billion within the delivered loans (the planned amount) was provided to the "Armenian Nuclear Power Plant". Within the structure of state budget expenditures, **government consumption** and actual expenditures **on acquisition of non-financial assets** were in line with the Central Bank's projection.

As a result, government spending had a neutral effect on aggregate demand over the previous quarter.

Under the above-mentioned developments in revenues and expenditures, in the second quarter a state budget deficit of AMD 19.8 billion was formed, which deviated slightly from the deficit figure estimated by the Central Bank. Consolidated budget deficit amounted to AMD 20.6 billion.

The deficit was financed from internal sources, in particular, net income from the placement of government securities totaled AMD 65.4 billion.

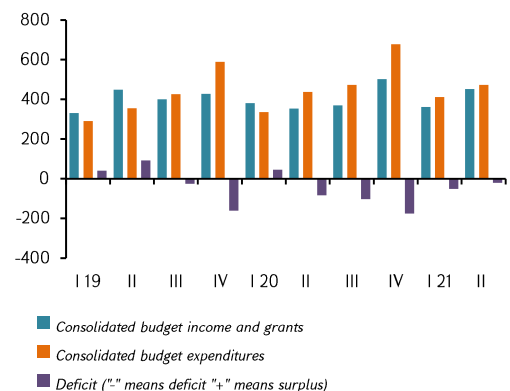
In conclusion, in terms of demand and inflation, in the second quarter of 2021, a small expansionary impact of government revenues and neutral impact of expenditures were observed.

According to the results of the first half of 2021, total revenues of the RA state budget totaled AMD 790.9 billion, growing by 10.3% over the same period of the previous year. Taxes and duties totaled AMD 750.2 billion, growing by 10.3% over the same period previous year.

State budget expenditures totaled AMD 866.4 billion, a growth of 13.2% over the same period of the previous year, which includes

Chart 31

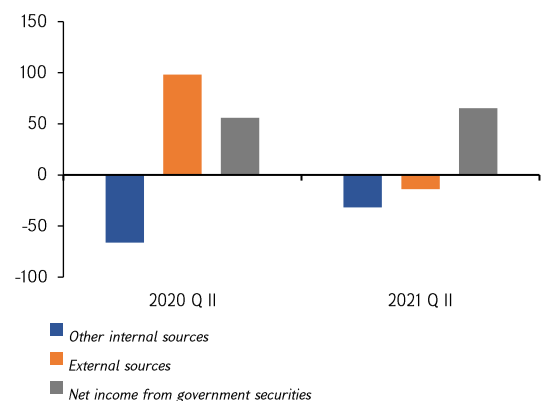
Main indicators of the consolidated budget (AMD billion)



Source: NSS

Chart 32

In the second quarter of 2021, the state budget experienced deficit, financed by domestic sources



Source: RA Ministry of Finance

In the second quarter of 2021, a small expansionary impact of government revenues and neutral impact of expenditures were observed

²⁰ The annual revenue program of the Central Bank coincides with the current annual adjusted program of the Government, which also includes changes made in accordance with the legislation during the reporting period. However, the quarterly revenue projections are the Central Bank's assessment, which is based on current developments and monthly programs provided by the Ministry of Finance.

expenditures on mitigating consequences of the war, implementation of anti-crisis programs against the spread of coronavirus and the growth of health expenditures. As a result, a state budget deficit of AMD 75.5 billion was observed in the first half of the year, compared to AMD 48.9 billion in the same period of the previous year. The impact of fiscal policy on aggregate demand in the first half of 2021 is estimated to be slightly expansionary.

3.2.3. Output Aspect of the Economy

GDP growth in the second quarter of 2021 totaled 13.2%, which was above the Central Bank projection. A smaller-than-expected decline was recorded in the industrial sector -6.2%, which was mainly due to the lower growth of the manufacturing sub-sector, while the strong growth of the mining sector is still continuing, mainly due to the high level of international copper prices. Lower-than-expected growth was observed in the construction sector, totaling 6.7%. It should be noted that the main contributor to recent growth in construction is the state budget, whereas construction financed by private companies is significantly behind the pre-crisis level, which reflects the low investment amid the current uncertainty. Higher than projected growth was observed in the agricultural sector, mainly due to the horticulture sector. The growth of the services sector was 15.2%, which was also higher than expected, the main contributors being almost all sub-sectors, except for "Culture, entertainment and leisure". The relatively large growth in the wholesale trade sector also contributed to the overall growth, while the retail sector grew more slowly. Positive developments in private consumption contribute to the larger-than-expected growth of the services sector. In addition, as a result of the pandemic and cautious policies of the partner countries, small since the beginning of the year outgoing tourism from Armenia has been relatively, and the latter has been partially replaced by consumption of domestic services and goods (see Section 3. 2. 2).

3.2.4. Labor Market

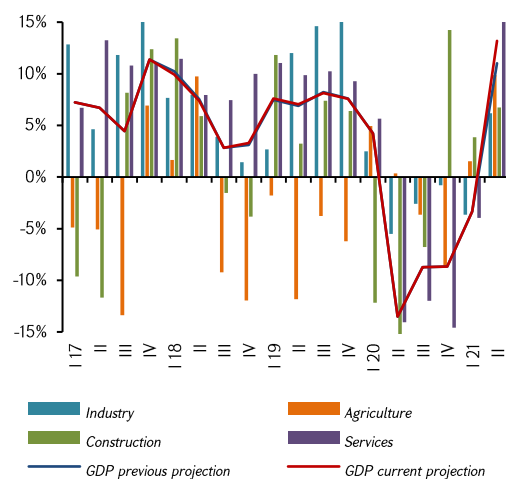
In the second quarter of 2021, the growth rate of nominal wages in the private sector was 10.2%, which is slightly higher than the previous projections of the Central Bank and reflects the fact that economic activity and demand recovered faster than expected. The growth rate of real wages of the private sector in the second quarter was about 4%.

In the second quarter of 2021, the unemployment rate is estimated at 14.9%, which is 2 percentage points lower than the CBA projection.

GDP growth in the second quarter of 2021 totaled 13.2%, which was above the Central Bank projection.

Chart 33

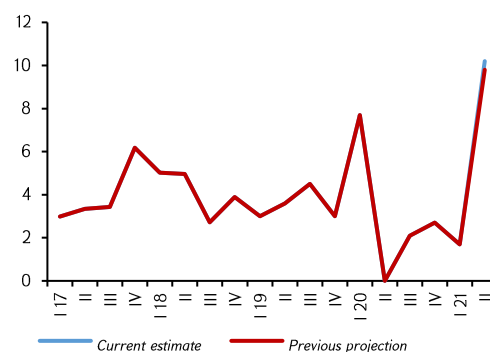
GDP Sectoral Structure (y/y growth, %)



Source: NSS, CBA estimate

Chart 34

Private nominal salaries (y/y growth, %)



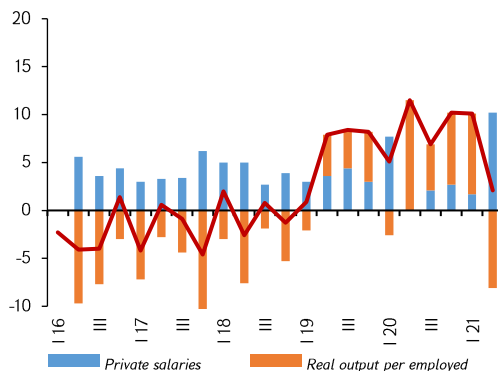
Source: NSS, CBA estimate

According to the Central Bank estimates, this is due to the sharp resumption of labor migration as a result of the easing of travel restrictions since the beginning of the year, which was mainly accompanied by a decrease in economically inactive and unemployed labor resources.

Despite the high growth of private wages, during the reporting period, the growth of unit labor costs of enterprises slowed down somewhat, mainly as a result of the acceleration of economic activity owing to faster recovery than expected. Subsequently, inflationary pressures from the labor market eased somewhat in the reporting quarter.

Chart 35

Unit labor costs (y/y growth, %)



Source: NSS, CBA estimate

3.3. Financial Market Developments

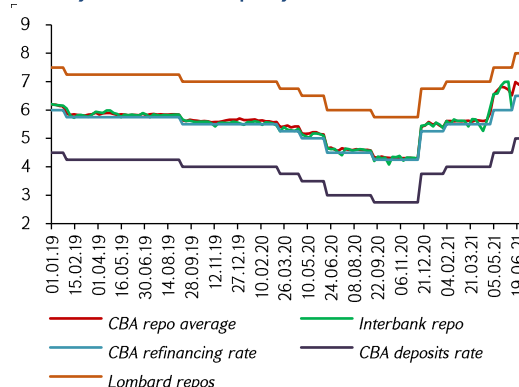
In the first quarter of 2021, the Central Bank Board twice raised the refinancing rate by 0.5 percentage point setting it to 6.5%.

Given the existing macroeconomic situation and inflationary effects expected from global and domestic economies in that context, the CBA Board considered that it is necessary to gradually neutralize the expansionary position and increase policy interest rate. As a result, in May and June, the CBA Board decided to increase the refinancing rate by 0.5 percentage point and at the same time announced that a consistent policy to neutralize any risks of accelerating inflation expectations in the future will be conducted.

In the first quarter of 2021, the Central Bank Board twice raised the refinancing rate by 0.5 percentage point setting it to 6.5%.

Chart 36

During the quarter short-term interest rates continued to stay around the CBA policy interest rate



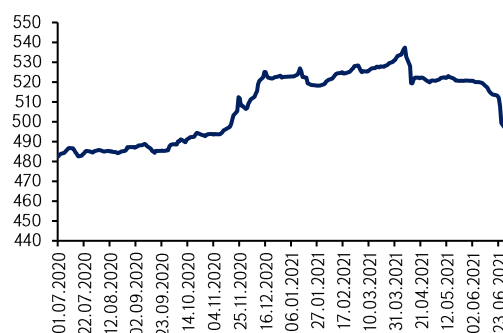
Source: CBA

Table 5

Average quarterly interest rates in Armenia's financial market								
Items	29.07.20-15.09.20	16.09.20-27.10.20	28.10.20-15.12.20	16.12.20-02.02.21	03.02.21-16.03.21	17.03.21-04.05.21	05.05.21-15.06.21	16.06.21-03.08.21
Central Bank refinancing rate (end of quarter)	4.50	4.25	4.25	5.25	5.5	5.5	6.0	6.5
Central Bank repo rate	4.60	4.33	4.31	5.47	5.61	5.67	6.7	6.97
Interbank repo rate (up to 7-day)	4.50	4.25	4.29	5.49	5.54	5.62	6.59	6.9
Yield of government securities on a yield curve (as of end-quarter)								
Short-term treasury bill (1 year)	5.63	5.59	5.94	6.6	6.83	6.81	7.15	7.59
Medium term notes (5 year)	6.96	6.92	7.36	8.18	8.19	8.24	8.37	8.75
Long-term bonds (30-year)	8.54	8.71	8.98	9.32	9.17	9.25	9.45	9.55

Chart 37

USD/AMD exchange rate dynamics, July 2020 – June 2021



Source: CBA

²¹ Productivity In unit labor costs is represented by a negative contribution.

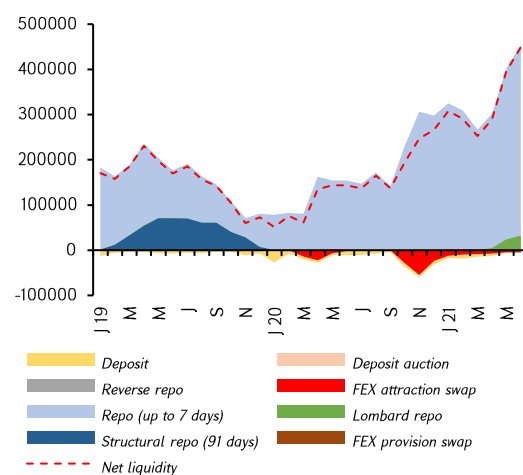
In the second quarter of 2021, there was a slight increase in demand for short-term liquidity in the financial market, partly because of the change in the reserve requirement ratio. In addition to the main 7-day repo instrument the Central Bank injected the necessary liquidity to the banking system through the adjustment instrument. Additionally, though the banks used the lombard repo instrument more frequently, the growth of short-term market interest rates was higher in the conditions of high liquidity demand, slightly deviating from the CB policy interest rate.

During the quarter, appreciation of AMD against US dollar was observed in FEX market. Compared to the previous quarter, appreciation of the quarterly average exchange rate totaled 0.79%. In order to ensure regular operation of the financial market the Central Bank also intervened in the foreign exchange market during the reporting quarter with the view to regulating ad hoc problems and temporary disruptions in the currency market (net sales totaled US\$ 67.7 million), as well as continued to use the currency swap tool.

As for government T-bills, the yields here showed an upward trend along the entire yield curve, bearing the impact of the CBA policy interest rate increase, although the response in the long run was weaker. As a result, a slight decrease in the slope of the yield curve was observed in late June.

Chart 38

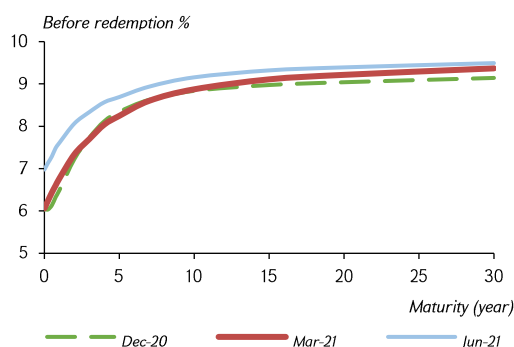
Liquidity absorbed and injected through CBA transactions (average monthly stock), AMD million



Source: CBA

Chart 39

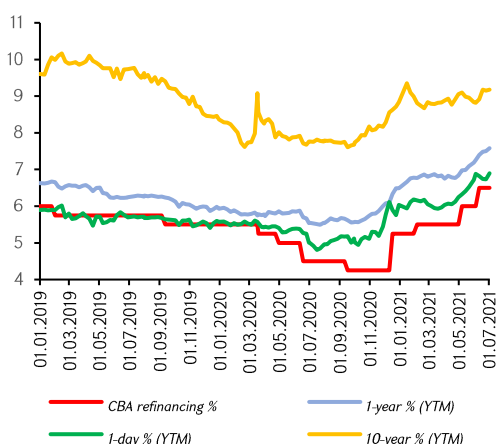
Adequate response of short-term government bond yields in the second quarter of 2021 to the policy of the Central Bank



Source: CBA

Chart 40

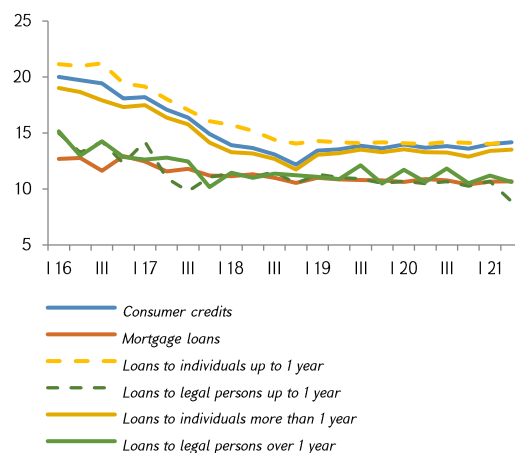
Dynamics of the CBA refinancing rate and government securities yields



Source: CBA

Chart 41

In the second quarter of 2021, the growth of lending rates to individuals continued



Source: CBA

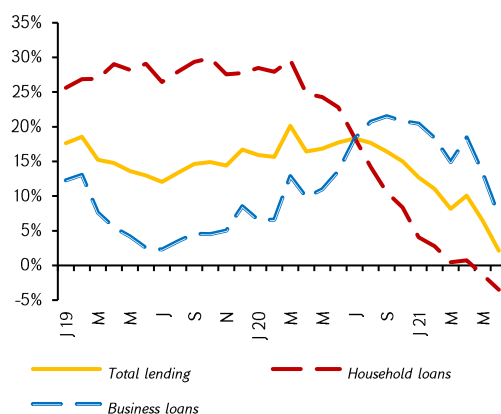
In the second quarter of 2021, the growth rate of lending continued to slow down amid the weak demand for loans, as well as the risks and uncertainties about the economic outlook in the banking system. The impact of the Central Bank's policy on lending rates was mainly reflected in loans to individuals.

The 12-month growth of total lending in June 2021 amounted to 2.1%, where the growth of mortgage lending played a significant role totaling 36.3%.

The 12-month growth of total lending in June 2021 amounted to 2.1%, where the growth of mortgage lending played a significant role totaling 36.3%.

Chart 42

Dynamics of 12-month growth of lending provided by banks



Source: CBA

4. SUMMING UP

According to the monetary policy program of the Central Bank for the third quarter of 2021, 12-month inflation will remain at a high level till the end of the year in view of inflationary effects

transmitted through a number of commodity imports and faster growth of domestic demand compared to the expansion of production capacity. In such situation, the Central Bank continues to raise policy interest rate with the view to neutralizing expansionary monetary stance. The Central Bank estimates show that consistent tightening of monetary conditions is having a significant impact for handling the surpassing demand, containing the inflation, and fulfilling the inflation target in the medium run. Inflation will gradually decrease in 2022 due to the gradual neutralizing of the supply factors' effects, as well as under the impact of current monetary policy, and will approach the target of 4%, stabilizing around it in the medium term.

The risks of deviating from the projected inflation trajectory are balanced in the forecast horizon, and in case of their emergence the Central Bank is ready to respond accordingly to ensure the achievement of the goal of price stability in the medium term.

BOARD MEETING OF THE CBA
MINUTES (14.09.2021)

On the Refinancing Rate

The CBA Board Meeting of September 14, 2021 attended by CBA Governor Martin Galstyan, Deputy Governors Nurses Yeritsyan and Vakhtang Abrahamyan, and Board Members Hasmik Ghahramanyan, Arthur Stepanyan, Hovhannes Khachatryan and Davit Nahapetyan

The Board meeting opened with a report of the situation as of September 14. It addressed the developments on inflation, external environment, and real, fiscal, financial and monetary sectors of the economy.

As noted, in August 2021, 0.4% deflation was recorded, as opposed to deflation of 0.1% registered in the same month of the previous year, as a result of which **12-month inflation continued to grow, reaching 8.8% by the end of the month**. The monthly inflation was contributed by 0.5% growth in “Food, Beverages and Tobacco” product group, 0.4% growth of non-food prices and 0.1% growth of service prices. A particularly large growth of 1.82% was registered in seasonal food products. In recent months, the 12-month core inflation dynamics was in overall stable, remaining around 8.0%.

Current developments in the foreign sector in 2021 were presented, according to which economic activity and aggregate demand in Armenia's key partner countries continue to grow faster than expected, although there has been some slowdown in the coronavirus vaccination rates and new outbreaks of the pandemic in a number of countries. At the same time, it was stated that as a result of the implementation of expansionary monetary and fiscal policies, under the impact of the rapid growth in demand in the global economy and limited supply of a number of products, prices will remain high throughout the forecast horizon in international commodity markets. Furthermore, as a result of the mentioned supply and demand factors, inflation and inflation expectations in the partner countries of Armenia were higher than it was projected. In such a situation, Central Banks of the leading countries have been already outlining, and Central Banks of developing countries, particularly Russia, moving towards tightening monetary policy.

The Board reviewed current developments of the RA economy, and it was noted that the growth of economic activity exceeds the

expectations of the Central Bank, mainly due to the high growth observed in the spheres of agriculture and services. According to the Central Bank estimations, these trends will continue in the short term, therefore the annual economic growth forecast has been revised upwards. Aggregate demand also grew faster than expected during the quarter, driven by strong private consumption growth, higher-than-expected remittances, and a positive external demand environment. In contrast, private investment is still low because of economic and political uncertainties, and it is estimated that the slow recovery of investment in the forecast horizon will have a negative impact on domestic demand and GDP growth potential. It is also estimated that in the context of the outstripping growth of private consumption over investments and production capacities the environment of domestic demand currently has a mainly enhancing effect on inflation growth. It was noted that while amid the high growth of private consumption, growth rate of imports is accelerated, the faster growth of exports and large volumes of remittances from abroad contribute to the improvement of the current account.

The Board reviewed the developments in financial market of the Republic of Armenia and noted that in the reporting period, short-term market interest rates were formed around policy interest rate of the Central Bank. Previous increases in refinancing rate have been reflected in the government bond market, where yields have risen along the entire curve. At the same time, it was noted that the previous tendencies of the banking system relating to the process of lending to the economy continue: the 12-month growth rate of total lending is slowing down mainly because of the decline in consumer loans, while mortgage lending continues to rise.

The Board also referred to the existing inflation environment and inflation developments. In this context, it was noted that the faster-than-expected growth of inflation is mainly the result of significant rise in seasonal food prices, which, according to projections, will soon show the opposite trend, lowering headline inflation. At the same time, core inflation has been lower than projected, reflecting the impact of the recent tightening of the Central Bank's monetary policy. It was noted that the observed appreciation of the real exchange rate will also contribute to the further decline of both headline and core inflation in the coming period. As a result, already by mid-2022, inflation will approach the target of 4%.

Following a discussion of the situation report and external and domestic macroeconomic developments, the Board proceeded to addressing the monetary policy directions and making decision on the policy rate. Taking into account the spill-over inflationary effects still

transmitted from foreign and Armenian economies under the presented developments, ***the Forecasting team suggested to the Board increasing the refinancing rate by 0.25 percentage points.*** Members of the Board did not come to a consensus on this issue: some Board members approved the presented macroeconomic scenario and policy proposal, while others considered that the recent relatively strong tightening of monetary terms had a significant impact on curbing inflation, and preferred to leave the interest rate unchanged for the time being. ***Finally, the CBA Board decided with a difference of one vote to increase the refinancing rate by 0.25 percentage points.*** With this step, the Board reaffirmed the goal of neutralizing the monetary expansionary stance, as well as the effectiveness of the implemented monetary policy of curbing inflation and inflation expectations. It was projected that under such conditions, 12-month inflation would remain high until the end of the year, then in 2022 it will approach the target of 4% and stabilize around it in the medium term.

The Board of the Central Bank noted that the risks of inflation deviation from the projected medium-term trend amid the still uncertain economic prospects are balanced, and in case of their materialization the Central Bank stands ready to respond accordingly in fulfilment of the price stability objective.

The Board approved interest rates of monetary instruments of the Central Bank and the proposed press release, which are attached hereto.

THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA

BOARD DECISION

INTEREST RATES OF THE REPUBLIC OF ARMENIA CENTRAL BANK OPERATIONS IN FINANCIAL MARKET

By virtue of Article 2.3 (20) “c” and “e” points of the Republic of Armenia law “On the Central Bank”, and provisions of the Republic of Armenia law “On Normative Legal Acts”, the Board of the Republic of Armenia Central Bank, herewith enacts:

1. Set the refinancing rate of the Central Bank of the Republic of Armenia at 7.25%.
2. Set the lombard repo facility rate offered by the Central Bank of the Republic of Armenia at 8.75%.
3. Set the deposit facility rate offered by the Central Bank of the Republic of Armenia at 5.75%.
4. This decision shall enter into force on the day following the day of its publication on the website of the Central Bank of the Republic of Armenia.

Martin Galstyan,
Governor of the Central Bank
September 14, 2021

PRESS RELEASE
14.09.2021

At the September 14, 2021 meeting, the CBA Board decided to raise the refinancing rate by 0.25 pp, setting it at 7.25%.

Inflation of 0.4% was recorded in August 2021 as opposed to deflation of 0.1% registered in the same month of the previous year, in which case the 12-month inflation has continued to increase amounting to 8.8% at the end of the month; the 12-month core inflation in August persisted around 8.0% as well.

In the third quarter of 2021, despite some slowing in the use of coronavirus vaccines around the world and new outbreaks of the pandemic in many countries, the economic activity and aggregate demand in the main partner countries to Armenia continue growing at faster-than-expected rates. In such a situation, influenced by a number of supply and demand factors, the environment in the international markets of raw materials and food products remains inflationary, just as the inflation in the partner countries runs a path which is higher relative to the previous forecasts. In this circumstance, mostly an inflationary impact is expected from the external sector on the Armenian economy.

The current economic growth developments in Armenia in 2021 are assessed as more positive than expected, owing to larger increases reported in agriculture and services. Aggregate demand is growing at a slightly faster-than-expected rate, which continues to be supported by strong private consumption growth, larger-than-expected remittances from abroad, and a positive external demand environment, while private investment growth remains relatively subdued. In such circumstances, the Board of the Central Bank estimates that the surpassing growth of private consumption over production capacity currently contributes to the expanding of the domestic inflationary environment.

The short-term acceleration of inflation in recent months is mainly due to rising seasonal food product prices, whereas the core inflation has been hovering at a level lower than anticipated. On the other hand, mainly inflationary effects continue coming from both the external and domestic economies, this is why the CBA Board finds it reasonable to raise the policy rate. At the same time, the Board considers that consistent tightening of monetary conditions recently is having a significant impact for handling the surpassing demand, containing the inflation, and fulfilling the inflation target in the medium run. Under such conditions, it is forecasted that the 12-month inflation will remain

high up until the end of the year, then in 2022 it will approach the 4% target and will stabilize around it in the medium term.

As uncertainties over the economic outlook are still persisting, the CBA Board estimates that the risks to inflation deviating from the projected mid-term path are balanced, and should they materialize, the CBA will stand ready to respond accordingly in fulfilment of the price stability objective.

Press Service of the Central Bank of Armenia

ARMENIA: SELECTED MACROECONOMIC INDICATORS

Items	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	actual	actual	actual	actual	actual	actual	actual	actual	program	program	program
External sector											
USA economic growth (% <i>real growth</i>)	1,8	2,3	2,7	1,7	2,3	2,9	2,3	-3,4	6,0	3,0	2,6
Eurozone economic growth (% <i>real growth</i>)	-0,2	1,4	1,9	1,8	2,7	1,9	1,3	-6,5	5,2	4,1	2,3
Russia economic growth (% <i>real growth</i>)	1,7	0,7	-1,9	0,2	1,8	2,8	2,0	-2,9	5,0	1,9	0,9
USA inflation (<i>average</i> , %)	1,5	1,6	0,1	1,3	2,1	2,4	1,8	1,2	4,0	2,3	2,4
Eurozone inflation (<i>average</i> , %)	1,3	0,4	0,0	0,2	1,5	1,7	1,2	0,3	1,9	0,8	0,9
Russia inflation (<i>average</i> , %)	6,6	7,5	14,4	6,8	3,6	2,8	4,4	3,3	5,9	4,6	3,7
Oil price (US\$/barrel)	120,1	115	53,5	45,0	54,6	71,4	64,1	42,5	68,6	71,3	73,4
Copper price (US\$/barrel)	7357,3	6825,9	5497,4	4867,6	6201,5	6544,7	6024,1	6191,2	9371,7	10325,2	10814,9
FAO index	108,8	99,3	93,0	91,9	98,0	95,9	95,0	98,0	122,5	125,9	130,1
Domestic economy											
Prices											
Inflation (y/y, <i>end of period</i> , %)	5,6	4,6	-0,1	-1,1	2,6	1,8	0,7	3,7	8,4	2,3	3,1
Consumer price index (y/y, <i>average</i> , %)	5,8	3	3,7	-1,4	1,0	2,5	1,5	1,2	7,3	4,6	2,3
Core inflation (y/y, <i>average</i> , %)	5,8	1,9	5,1	-2,0	0,8	4,0	1,2	1,3	7,1	4,1	3,6
Gross product											
GDP (<i>billion Armenian dram</i>)	4555,6	4828,6	5043,6	5067,3	5568,9	6017,0	6543,3	6181,7	6936,2	7315,8	7920,4
GDP (% <i>real growth</i>)	3,3	3,6	3,2	0,2	7,5	5,2	7,6	-7,4	5,4	2,4	4,1
Supply											
Industry (% <i>real growth</i>)	6,3	-0,9	6,2	7,7	11,7	4,9	12,0	-1,7	2,5	3,2	5,0
Agriculture (% <i>real growth</i>)	7,6	6,1	13,2	-5,0	-5,1	-6,9	-5,8	-4,1	4,2	1,5	2,9
Construction (% <i>real growth</i>)	-7,4	-4,5	-3,1	-14,1	2,8	0,6	6,5	-6,7	-6,0	4,5	4,8
Services (% <i>real growth</i>)	3,1	6,7	1,6	3,2	10,6	9,1	10,0	-9,7	8,2	2,3	4,1
Taxes, net (% <i>real growth</i>)	3,6	1,8	-5,1	-3,7	9,7	8,0	7,1	-10,0	6,2	1,1	3,5
Demand											
Consumption (% <i>real growth</i>)	2,3	1,2	-6,0	-2,1	11,6	3,8	11,7	-10,1	9,2	3,0	4,0
Public consumption (% <i>real growth</i>)	7,6	-1,2	4,7	-2,4	-2,1	-3,0	12,9	15,2	-3,9	1,8	1,6
Private consumption (% <i>real growth</i>)	1,7	1,6	-7,5	-2,1	14,0	4,8	11,5	-13,9	12,0	3,2	4,5
Gross accumulation of fixed assets* (% <i>real growth</i>)	-7	-2,2	2,5	-11,4	9,7	4,8	4,4	-8,6	-9,7	4,8	5,8
Public investment** (% <i>real growth</i>)	-13,8	10	13,6	5,0	31,7	-37,4	31,1	15,6	-26,6	6,8	8,6
Gross accumulation of private fixed assets (% <i>real growth</i>)	-7,8	-3,4	1,2	-13,9	6,2	19,6	-0,5	-14,5	-4,1	4,4	5,2
Export of goods and services (% <i>real growth</i>)	8,6	6,4	4,9	21,3	19,3	5,0	16,0	-33,4	7,4	8,1	12,0
Import of goods and services (% <i>real growth</i>)	0	-2,7	-15,3	6,3	24,6	13,3	11,6	-31,4	8,4	9,3	10,9
Current account											
Balance of trade ((<i>million US dollar</i>))	-2196,2	-2055,4	-1186,4	-976,9	-1400,9	-1724,4	-1727,9	-1356,2	-1340,8	-1480,6	-1579,5
Balance of services ((<i>million US dollar</i>))	-124,3	-113	-96,4	70,4	159,4	24,7	-66,9	100,1	238,2	246,0	218,2
Remittances ((<i>million US dollar</i>))	1755,1	1616,1	1098,3	1009,4	1179,3	1136,2	1143,8	1040,2	1298,9	1247,2	1144,4
Current account ((<i>million US dollar</i>))	-812,9	-883,1	-284,7	-107,9	-173,9	-875,9	-1002,3	-478,7	-257,7	-435,2	-664,6
Balance of trade (<i>share in GDP</i> , %)	-19,7	-17,8	-12,2	-8,6	-10,8	-13,7	-13,1	-9,9	-8,3	-8,4	-8,6
Balance of services (<i>share in GDP</i> , %)	-1,1	-1	-0,9	0,7	1,4	0,2	-0,5	0,8	1,8	1,7	1,4
Remittances (<i>share in GDP</i> , %)	15,8	14	10,4	9,5	10,2	9,1	8,4	8,2	9,8	8,5	7,2
Current account (<i>share in GDP</i> , %)	-7,3	-7,6	-2,7	-1,0	-1,5	-7,0	-7,3	-3,8	-1,9	-3,0	-4,2

Items	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	actual	actual	actual	actual	actual	actual	actual	actual	program	program	program
Public sector***											
Revenues and grants (billion Armenian dram)	1071,4	1144,8	1167,7	1171,1	1237,8	1341,7	1559,1	1560,4	1658,7	1882,5	1966,7
Tax revenues (billion Armenian dram)	1000,9	1064,1	1067,9	1079,7	1158,0	1258,1	1464,3	1385,2	1574,5	1796,7	1889,9
Expenditures (billion Armenian dram)	1142,9	1235,1	1409,0	1449,1	1504,8	1447,1	1623,0	1894,3	1916,2	2096,9	2135,5
Deficit (billion Armenian dram)	-71,5	-90,3	-241,3	-278,0	-267,0	-105,4	-63,9	-333,9	-257,5	-214,4	-168,8
Revenues and grants (share in GDP, %)	23,5	23,7	23,2	23,1	22,2	22,3	23,8	25,2	23,9	25,7	24,8
Tax revenues (share in GDP, %)	22	22	21,2	21,3	20,8	20,9	22,4	22,4	22,7	24,6	23,9
Expenditures (share in GDP, %)	25,1	25,6	28,0	28,6	27,0	24,1	24,8	30,6	27,6	28,7	27,0
Deficit (share in GDP, %)	-1,6	-1,9	-4,8	-5,5	-4,8	-1,8	-1,0	-5,4	-3,7	-2,9	-2,1
Monetary sector											
Broad money (y/y, end of period, %)	14,8	8,3	10,8	17,5	18,5	7,5	11,2	9,0	-	-	-
Dram broad money (y/y, end of period, %)	14,9	-3,5	5,2	24,8	28,9	13,2	21,5	14,8	-	-	-
Loans to economy (y/y, end of period, %)	12,9	20,8	-3,3	6,0	16,5	17,2	18,5	14,3	-	-	-
USD/AMD (Armenian dram for one US dollar)	409,6	415,9	477,9	480,5	482,7	483,0	480,4	489,0	-	-	-
* Hereinafter, the Central Bank will only present the indicator of the aggregate fixed asset accumulation instead of the aggregate accumulation, since the change in tangible working capital inventories is considered by Armenia's Statistics Committee as a balancing item and it does not show the true level of the aggregate accumulation. See https://www.armstat.am/file/article/sv_04_19a_112.pdf: ** Actual indicators of public investment are capital expenditures of the consolidated budget, and the forecasts are based on the currently revised macro framework for 2022-2024. *** indicators of the 2021 budget are those of the law "On 2021 State Budget of the Republic of Armenia". The indicators for 2022-2023 are presented from the revised macro framework.											

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