

# **Manipulation of inflation: gains for no one, losses for everyone**

## **Much ado about nothing in Great Britain**

Long queues at gas stations are a common sight today in the UK. The police is concerned because of the big traffic jams; the government thinks of ways to prevent the increasing social discontent and there are even recommendations to deploy the army; the number one concern of the drivers today is to fill the fuel tank to the brink to be able to withstand the fuel deficit, a deficit that is not.

Indeed, regardless of this chaotic situation, there is no fuel deficit in Great Britain, but there is panic instead. What has happened in reality? Because of the coronavirus pandemic, the number of truck drivers arriving from Eastern Europe to Great Britain, and therefore, the number of trucks has decreased. In the result, BP closed down several gas stations, citing efficiency considerations. In media, these gas stations became the symbol of fuel deficit, inciting panic that continues gaining momentum. In just couple of days, a small local issue became a serious national one. When everyone, influenced by the information flow, wants to buy the same product, no system can accommodate to such a demand.

And today Great Britain has to address the real consequences of a made-up problem, a problem that appeared in the result of spreading a false message.

## **Inflation in the aftermath of the lockdown and war**

For over a year and a half, the Armenian economy was in limbo, in a situation far from normalcy. Therefore, currently it has to deal with the summative impact of delayed plans of both individuals and organisations. "The prices of construction materials have risen so much!"; "One can only wonder at the fees wedding halls charge!" We all have heard such expressions even in the recent months. These are indeed correct observations, and the reason is clear: people have delayed their plans of constructing a house, renovating an apartment; they have put off weddings, birthday and baptism parties; and now they are to implement plans that would otherwise have been dispersed within a period of two years simultaneously. Now these plans have piled up; the demand has increased; the supply lags behind the demand; and prices have risen. This is a classic situation, easily explained by the economic science. What will happen next? Next, normalcy will be restored, and *ceteris paribus*, in the next year, prices will 'behave' as they would in a normal market.

Meanwhile, inflation in Armenia is influenced also by external factors, because the inflation rate in our partner countries is higher, than forecast previously. Consequently, the impact of inflation continues, shaped both by external and internal economic factors, in the result of which, inflation in Armenia is higher, than forecast. Thus, in August, 2021, the inflation rate was 0.4%, compared to the 0.1% deflation rate in the same month, in which case the inflation rate for 12 months continued to accelerate, and by the end of August comprised 8.8%. The normal inflation rate for 12 months in August was also maintained in the range of 8%. It should be reminded that the target range of annual inflation rate in Armenia is +/- 4%.



## To do something, or to wait for the inflation rate to fall?

There is no fuel deficit in Great Britain, but the media and society hand-in-hand keep spreading panic, which has resulted in huge queues. At the same time in Armenia, the inflation rate is higher, than usual. As a society, public and political leaders that have influence on the media, we have two options:

1. Either make much ado about prices rising and eventually contribute to inevitably and irrationally higher inflation rate;
2. Or understand why the inflation rate is high now, and wait until it starts falling, which according to forecasts, will start in a couple of months.

Inflation is indeed a very negative thing: it's an enemy. It harms both the whole economy, and the individual families. Everyone that chooses the first option, inevitably will harm themselves and their families. What they may gain is doubtful. The rational choice is the second option. Except being rational, it has another component: in Armenia inflation is regulated by the Central Bank, which has proved over the years that it is an exceptionally strong and professional institution, and perhaps they deserve to be trusted by all.

*The policy brief is elaborated based on the opinions of the independent experts, public officials and representatives of political parties and civil society, having participated in the off-the-record discussion "Policy priorities of the Central Bank in ensuring the fiscal and financial stability of Armenia", held on 10.09.2021. The event was organized within the project "Supporting communication strategy in the monetary-fiscal and financial sectors of Armenia".*