

THE CENTRAL BANK OF THE REPUBLIC  
OF ARMENIA

*Approved*  
*under the Central Bank of Armenia*  
*Board Resolution No. 185A, dated 29.11.2019*

STATUS REPORT ON IMPLEMENTATION OF  
THE MONETARY POLICY PROGRAM  
(Q4, 2018 – Q3, 2019)

*The Central Bank of Armenia continued to pursue an expansionary monetary policy throughout the year starting from the fourth quarter of 2018 to the third quarter of 2019; it has notably neutralized the influence of the contractionary fiscal policy implemented during that period and the contractionary impact transmitted from the external sector on the inflation environment. However, the abovementioned influence in each of the following quarters proved more contractionary than expected, as a result of which the 12-month core inflation reached 1.1% at the end of the reporting period. This was coupled with the impact of deeper seasonal decline in prices of agricultural products in the third quarter of 2019, with the 12-month headline inflation subdued to 0.5% at the end of September.*

## 1. MONETARY POLICY IN THE PERIOD UNDER REVIEW

According to Q4, 2018 MP program, in view of anticipated macroeconomic developments and a monetary policy steered to maintain expansionary, the inflation would be expected to behave stably in the short term, running close to the lower part of the confidence band. According to the scenario, the Central Bank would continue to pursue a stimulative monetary policy in the short run, while expansionary monetary conditions would be phasing out at a much slower pace in the medium term to help the inflation recover and stabilize around the target.

Actual results showed that the inflation has deviated from the projected scenario, demonstrating a down-trending volatility in the period under review. The deviation was mainly due to a more contractionary fiscal policy implemented during that period and to a weaker demand and lower prices than expected from the external sector, which led to the weakening of aggregate demand. This has caused the 12-month core inflation to reduce during the past year by 2.6 pp to 1.1% in end-September. On the other hand, due to a change in prices of agricultural products because of earlier crop seasonality, the 12-month headline inflation fluctuated during that time, amounting to 0.5% at the end of September.

Over the past one-year period the Central Bank continued pursuing a stimulative monetary policy in a low inflationary environment yet it *has given preference to a gradual recovery of inflation and of inflation expectations*, since low inflation in a macroeconomic environment recently has been contributing to anchoring long-term inflation expectations and maintaining the purchasing power of income, according to the Central Bank estimation. Given the more-than-expected contractionary stance of the fiscal policy, continued slowdown

in world economic growth and the weakening of the inflationary environment in international commodity markets, the Central Bank has slightly increased its monetary policy stimulus by lowering refinancing rate in the first and third quarters, each time by 0.25 pp. At the same time, the Central Bank kept on signaling the financial market that in view of predictable macroeconomic developments, the monetary conditions will remain expansionary for as long as required, in fulfillment of the mid-term inflation target.

*According to the Central Bank forecasts, the 12-month inflation will run below the target in the short term; it will expand gradually in the medium term and stabilize around the target at the end of the forecast horizon*



## 2. INFLATION IN THE PERIOD UNDER REVIEW

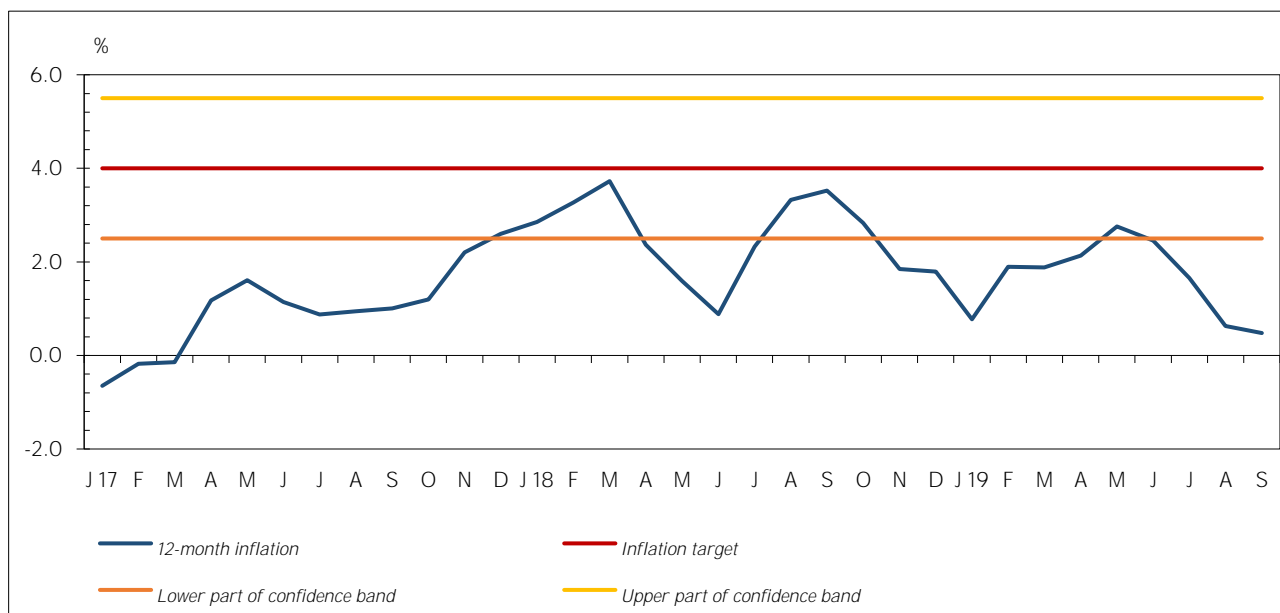
In a one-year horizon from Q4, 2018 to Q4, 2019, the 12-month inflation persisted at a low level, amounting to 0.5%, mainly driven by a 2.7% decrease in prices of seasonal food products. In the meantime, the 12-month core inflation rate amounted to 1.1% and regulated service tariffs posted a 0.7% rise y/y.

The y/y decrease in seasonal food prices owed to a falling of prices in **groups “Fruit” and “Vegetable”** by 1.9% and 4.0%, respectively (combined contribution to the y/y inflation: -0.3 pp).

The y/y increase of core inflation was **primarily driven by a price rise in groups “Bread products and grains”, “Tobacco products” as well as non-food groups “Clothes”, “Footwear”, and “Fuel”** by 3.3%, 7.3%, 7.1%, 12.3% and 3.2%, respectively (combined contribution to the y/y inflation: about 1.0 pp). At the same time, the falling of prices of food products in international markets have led to a considerable slowing of the price inflation in the domestic food product market. As a result, the growth rate of non-seasonal food prices has gradually declined over the last one year's horizon from 4.6% y/y to 0.2% in September.

In the last one-year period, inflation has been largely in line with demand developments, although somehow affected by the supply of individual commodity items. In early of the reporting period, caused by external factors, the price of flour and bread<sup>1</sup> began increasing, with a combined inflationary effect estimated to have reached 0.3 pp).

*In the last one-year horizon the inflation environment has persisted low and the 12-month inflation rate fluctuated around the lower part of the confidence band*



It should be noted that the inflationary effect of change in customs duty on certain products in early 2019 is an estimated 0.3 pp, mainly due to the increase in poultry prices. As for the change in tobacco and alcohol prices as a result of the changed excise duty, its actual impact on the headline inflation is estimated up to 0.2 pp.

<sup>1</sup> <http://www.competition.am/index.php?page=&menu=174&newsID=1547&lng=1>

Growth of consumer prices by commodity group as key contributors <sup>2</sup>

	Weights	12-month inflation	Contribution
Core inflation	72.7	1.1	0.8
Bread products and grains	8.99	3.3	0.30
Meat	9.87	-1.2	-0.12
Oils and fats	2.77	-5.8	-0.16
Sugar	0.60	-1.7	-0.01
Alcoholic beverage	2.77	3.0	0.08
Tobacco products	1.77	7.3	0.13
Clothes	2.58	7.1	0.18
Footwear	1.52	12.3	0.19
Medicine	4.83	-0.4	-0.02
Fuel	5.20	3.2	0.17
Seasonal products	10.5	-2.7	-0.28
Egg	1.44	-0.3	0.0
Fruit	3.35	-1.9	-0.06
Vegetable	5.74	-4.0	-0.23
Regulated services	16.7	0.7	0.1

<sup>2</sup> The Central Bank has calculated y/y data on structural elements of food products using information provided by Statistics Committee of the Republic of Armenia.