

**THE CENTRAL BANK OF THE REPUBLIC  
OF ARMENIA**

*Approved  
under the Central Bank of Armenia  
Board Resolution No. 27A, dated 28.02.2020*

**STATUS REPORT ON IMPLEMENTATION OF  
THE MONETARY POLICY PROGRAM  
(Q1, 2019 – Q4, 2019)**

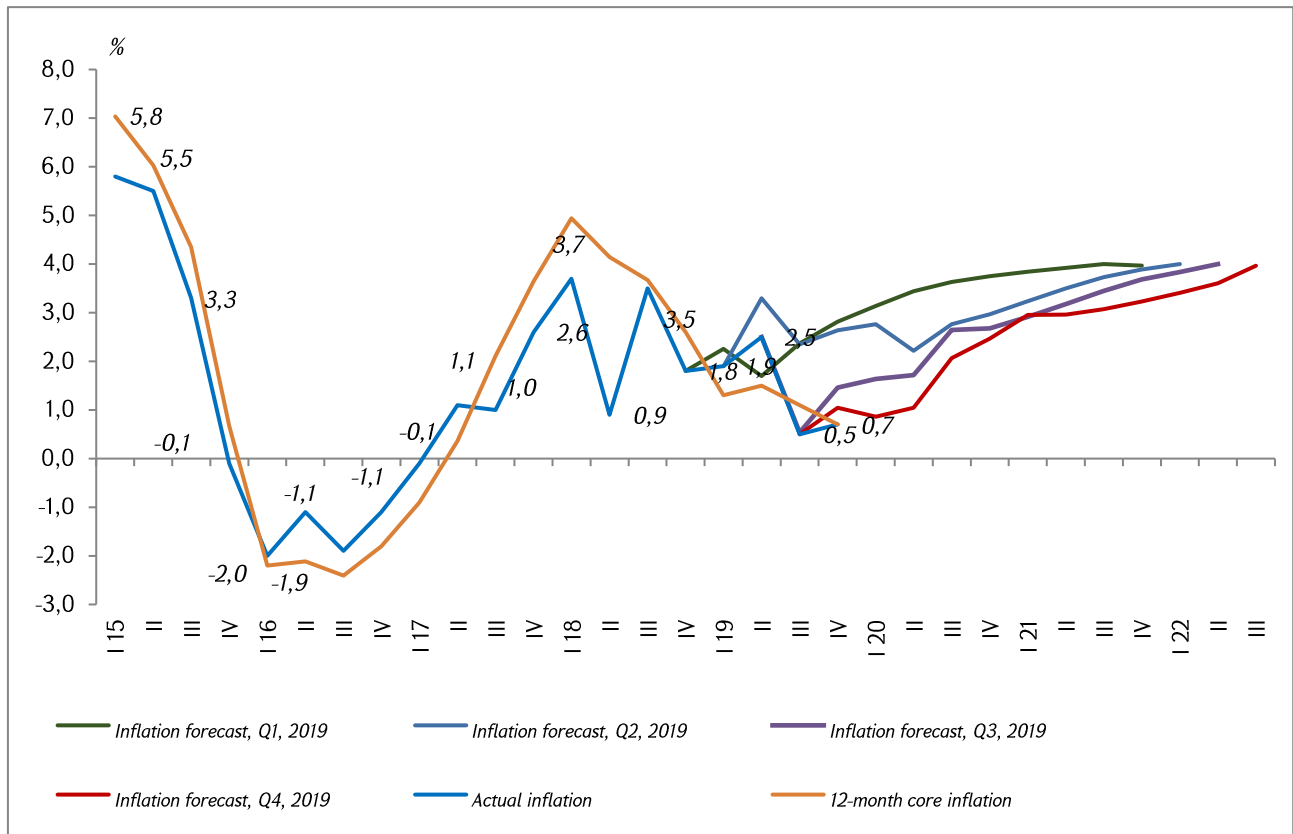
*In 2019, given the low inflation environment, the Central Bank of Armenia carried out a monetary policy, steered to gradual recovery of inflation, and helped it approach its mid-term target. Main factors contributing to a low inflationary environment during the year included the more-than-expected contractionary fiscal policies implemented during that period, the deflationary effects transmitted from the outside world, as well as some structural factors, such as an increased market competition and the shift in demand for short-term consumer goods to long-term consumer goods. In the course of 2019, the Central Bank of Armenia continued to pursue a stimulative monetary policy, which involved monetary conditions loosened two times in order to reach the projected inflation target for the 3-year horizon.*

## **1. MONETARY POLICY IN THE PERIOD UNDER REVIEW**

At the start of 2019 the inflation environment would remain low and the Central Bank would continue implementing a stimulative monetary policy, according to Q1, 2019 MP program. In view of such policy and expected macroeconomic developments, the 12-month inflation was supposed to still keep low in the upcoming period as the Central Bank favored a gradual recovery of inflation, considering that lower inflation would contribute to anchoring long-term inflation expectations and maintaining purchasing power of income, which would then stabilize around the 4 percent target in the medium run. Further, it was expected that in view of predicted macroeconomic developments the monetary conditions would remain expansionary for as long a period as required, in order to fulfil the mid-term inflation target.

In the reporting period however, the inflation came below the projected level. The deviation owed mainly to a more contractionary fiscal policy conducted at that time and weaker-than-expected demand in the external sector. Certain supply-side factors that contained inflation emerged during the year; these included the impact of low prices in the external environment on domestic prices, the ever-increasing competition in product markets, which changes the behavior of pricing by organizations and reduces their markups, and the increased effectiveness of use of non-tradable resources in the economy.

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



In the course of 2019 the Central Bank pursued implementing a stimulative monetary policy amid a low inflationary environment, yet **it preferred to inflation gradually anchoring around its target**, since the Bank believes that in the macroeconomic environment of the time a low inflation contributed to anchoring long-term inflation expectations and maintaining the purchasing power of income. Taking into account even a more contractionary pace of the fiscal policy and in anticipation of continued slowing in global economic growth and weakening of the inflation environment in world commodity markets, the Central Bank somewhat added to the monetary stimulus by cutting the refinancing rate by 0.25 pp in the first and third quarters. In the meanwhile, the Central Bank continued signaling the financial market participants that, in view of predicted macroeconomic developments, the monetary conditions would remain expansionary for as long a period as required, in order to fulfil the mid-term inflation target.

## 2. INFLATION IN THE PERIOD UNDER REVIEW

In the course of 2019, the 12-month inflation persisted at a low level and proved volatile amid a change in prices of agricultural products due to a shift in seasonality of the crop. Thus, over the first half of the year it has increased to 2.5% in end-June but has gradually decreased over the second half to 0.7% y/y at the end of the year. In the meantime, the 12-month core inflation rate also dropped to 0.7% while regulated service tariffs and seasonal food product prices posted, respectively, 0.3% and 1.8% rise y/y.

The y/y rise in seasonal food product prices was totally driven by a 5.9% increase in prices in item “Vegetable” (combined contribution to the y/y inflation: 0.3 pp), whereas items “Fruit” and “Egg” posted price falls by 2.7% and 4.0%, respectively.

The y/y increase of core inflation owed primarily to the price rise in items “Bread products and grains”, “Tobacco products”, “Alcoholic beverage” as well as non-food items “Clothes”, “Footwear”, and “Fuel” by 3.9%, 7.5%, 2.8%, 1.5%, 4.4% and 2.8%, respectively (combined contribution to the y/y inflation: about 0.8 pp). The rise of non-regulated service tariffs amounted to 1.9% and was driven by air transport, education and medical services fees having increased by 7.5%, 3.7% and 4.3%, respectively (combined contribution to headline inflation: around 0.2 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.

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 prices of tobacco products and alcoholic beverage as a result of the changed excise duty, its actual impact on the headline inflation is estimated up to 0.2 pp.

### *Growth of consumer prices by commodity group as key contributors<sup>1</sup>*

Commodity item	Weights	12-month inflation	Contribution to y/y inflation
<b>Core inflation</b>	<b>72.7</b>	<b>0.66</b>	<b>0.48</b>
Bread products and grains	8.99	3.90	0.35
Meat	9.87	-3.45	-0.34
Oils and fats	2.77	-4.86	-0.13
Sugar	0.6	-12.39	-0.07
Alcoholic beverage	2.77	2.76	0.08
Tobacco products	1.77	7.51	0.13
Clothes	2.58	1.45	0.04
Footwear	1.52	4.44	0.07
Pharmaceuticals, medical equipment and devices	4.83	0.22	0.01
Fuel	5.2	2.79	0.15
Air transport	0.55	7.50	0.04
Education	1.48	3.70	0.05
Outpatient and hospital services	2.99	4.30	0.13
<b>Seasonal food products</b>	<b>10.5</b>	<b>1.80</b>	<b>0.19</b>
Egg	1.44	-3.97	-0.06
Fruit	3.35	-2.72	-0.09
Vegetable	5.74	5.89	0.34
<b>Regulated services</b>	<b>16.7</b>	<b>0.34</b>	<b>0.06</b>

<sup>1</sup> The Central Bank has calculated y/y data on structural elements of food products using the information provided by Statistics Committee of the Republic of Armenia.