

An analytical framework to support a prudent risk management approach in Armenia

2026-09-02

Central Bank of Armenia

An analytical framework to support a prudent risk management approach in Armenia

Working paper WP-2026-03

Ani Asoyan, Jared Laxton

Abstract

Since the pandemic, the global economic environment has been characterized by elevated uncertainty driven by overlapping shocks. Under these circumstances, the CBA adopted the Prudent Risk Management Approach to Price Stability (PRMAPS) in 2024, designed to better incorporate uncertainty and nonlinearities while supporting monetary policymaking as a risk-management exercise. PRMAPS adds several improvements to the previous framework, including policy navigation in uncertain environments, the growing importance of tail-risk events, and the role of central bank credibility in influencing expectations and the effectiveness of monetary policy. To support this framework, the paper introduces the Endogenous Credibility (EndoCred) model as a workhorse tool for scenario-based policy analysis. Building on the canonical Quarterly Projection Model (QPM), EndoCred extends the traditional framework by incorporating endogenous monetary policy credibility, nonlinear inflation dynamics, and richer transmission mechanisms, including the role of long-term interest rates as well as credibility-driven risk premium and dollarization effects relevant for small open economies. By allowing credibility to evolve in response to policy performance, the model endogenizes its impact on inflation expectations and policy transmission. These features make the model particularly suitable for economies exposed to volatile external conditions. The framework provides a practical analytical foundation for implementing risk-based monetary policymaking and improving the assessment of policy trade-offs under uncertainty.

[An analytical framework to support a prudent risk management approach in Armenia](#)

