

# Asymmetric Effects of Monetary Policy on the Armenian Economy

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Abstract

Whether inflation and output respond symmetrically or asymmetrically to contractionary and expansionary monetary policy shock of the same size has important policy implications. This paper shows the presence of asymmetric responses in Armenian inflation and output to positive and negative monetary policy shocks of the same size by employing econometric models. Contractionary policy decreases inflation less than expansionary policy increases it. Output reacts in the opposite way. An estimated small open economy DSGE model with sticky wages and investment adjustment costs explains about half of the asymmetry observed in the monetary policy transmission mechanism.

This paper finds that the main part of inflation reaction asymmetry is a result of a highly convex Phillips curve for the importers. The nonlinearities of the internal economy explain the predominant part of the asymmetry in output reaction.

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