

Annual report 2020

2021-04-27

Governor's message

Dear reader,

2020 was my first year as CBA Governor. At the time of my appointment as Governor by the National Assembly on June 15, the country was experiencing the first wave of coronavirus, and it was a difficult period for the economy. The Central Bank had to work mainly remotely, but with no less effort. While the global uncertainty was great, we all hoped that the world would soon overcome the pandemic and that life would return to normal.

During the difficult days of the Second Artsakh War, which began in September 2020, the Central Bank together with the whole country descended into martial law. Military news mingled with financial market news, and there was a great deal of responsibility for all decisions to make. The work was done on a 24/7 basis, despite the fact that part of the staff of the Central Bank and the financial system were involved in the war, and the others were infected. Looking back to what we had to surpass, I must state that both the staff of the Central Bank and the financial system came out of this great ordeal with honor.

Now let's turn to economic situation. Starting the year with high economic activity, the Armenian economy observed a deep decline because of pandemic. At the same time, it should be noted that both the Government, through the state budget deficit, and the Central Bank, through expansionary policies and liquidity injections, made great efforts to avoid a more pessimistic scenario.

Following developments of the year, the country's internal and external risks expanded significantly, which was also reflected in the financial markets, including through devaluation of the exchange rate by the end of the year. Inflation, which remained low during the year due to weak demand, grew sharply at the end of the year under the impact of supply factors. Monetary policy of the Central Bank was marked by a downward trend in interest rates and significant expansionary position. At the end of the year, in response to higher inflation projection, the CBA Board sharply raised refinancing rate, narrowing the expansion. At the same time, due to its mediation in financial markets, the Central Bank managed to ensure a smooth adjustment, avoiding big shocks. Financial

system also operated in an environment of high uncertainty and high volatility. Amid the outbreak of pandemic and in particular, the uncertainties caused by the war, banking system was facing the risk of deteriorating credit quality and leakage of deposits. Despite the challenges that were emerging throughout the year, I think that the Central Bank has successfully managed to maintain price and financial stability for the benefit of our society.

At the same time, as an independent body, the Central Bank must always be transparent and understandable to the public. To this end, the communication process of the Central Bank was reformed last year. All monetary policy decisions are followed by press conferences of the CBA Governor, and minutes of the Board meetings describe in more detail discussions on interest rate and the underlying judgments. Financial stability reports, which are currently in the stage of qualitative reform and will gradually present in more detail the macroprudential policy pursued by the Central Bank, are followed by the CBA Governor's press conferences.

During the year the Central Bank continued structural changes. With the view to increasing the efficiency of processes, all internal services have been integrated into the Corporate Services and Development Department. One of the goals of this reform is to improve the quality of personnel management policy, information technology and information security, budget and procurement processes, and other internal services. The Central Bank, as an institution, is currently undergoing another round of reforms, the results of which will be visible in the coming years.

I would also like to touch upon the most important factor that has underpinned the Central Bank's success for many years. It is the institutional capacity of the Central Bank, to which all current and former managers and employees of the Central Bank contribute. I will also focus on the preservation and development of that heritage throughout my tenure. The vision for implementation of this problem will be reflected in our new strategy, which we have been working on since last year.

Finally, I would like to express my deep gratitude to the staff of the Central Bank for their dedicated work in difficult conditions. I am particularly impressed with the work of our modeling and forecasting team. At the beginning of the pandemic, when academicians around the world were still working on modeling its economic impacts, our team was one of the first in the world to model the situation, to lay the groundwork for CBA Board decisions in the face of high uncertainty. Our IT team did a tremendous job during the war to ensure proper performance of the bank. Every employee, including the management team and the CBA Board, has worked hard over most of the year to be able to proudly

state today that price stability and financial stability in Armenia are unshakable, and to feel confident that they will be sustained in the future.

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Thank you!

Governor

MARTIN GALSTYAN