

Inflation report 2020/1 (Monetary Policy Program Q1, 2020, Status report on Implementation of the Monetary Policy Program Q4, 2019)

2020-03-31

Executive summary

The outbreak of COVID-19 in China, the resultant coronavirus pandemic spreading rapidly around the world and the measures taken to fight it have significantly affected the macroeconomic and financial market developments both globally and in Armenia. The forecasts and program directions for the first quarter 2020 were, therefore, carried out in the time of uncertainty - even greater in terms of quality and quantity - in contrast to the previous quarters.

The Armenian economy and global economy continue to be affected by the shock, but the statistical data we have do not so far enable to make the smallest amount of preliminary estimates of the economic impact of the shock, at least on the example of other countries. That is why the current forecasts in Armenia and around the world will, after the publication of the data for the first quarter, most likely be subject to significant adjustments. Under the forecasts, increased vagueness is reflecting even a wider range of uncertainty over inflation and other key macro-indicators.

According to the basic scenario, the inflation environment remained low over the first quarter of 2020, and the Central Bank continued pursuing a stimulative monetary policy.

In view of the current monetary policy and expected economic developments, the 12-month inflation will be running low for a while. The inflation will recover gradually in the medium term and stabilize around the target at the end of the forecast horizon.

Healthcare-related matters will cause decreases in supply and demand in the economy, the impact of which on inflation is quite uncertain, mainly being assessed as near-to-neutral. At the same time, thanks to low-inflation-steered policy conducted in recent years, inflationary expectations in the Armenian economy are now assessed as rather anchored, which serves well for maintaining price stability in the current situation.

In response to the currently low inflation, anticipated deflationary effects of the global

economy and growing uncertainties, the Central Bank Board decided to add to the monetary stimulus by cutting the refinancing rate by 0.25 pp. Meanwhile, risks were increasingly observable in all developing countries in the past month, which, all else being equal, makes the monetary stance more expansionary. The Board believes that implementing possibly a more transparent and predictable monetary policy is important in view of anchoring inflationary expectations.

On the back of the coronavirus pandemic and anti-epidemic measures, Armenia's economic growth will decrease considerably in 2020 but will return to the potential level in the forecast horizon, as uncertainties retreat.

To neutralize negative effects of the new type coronavirus on the Armenian economy, the Armenian government works on developing fiscal incentives. Extra spending of about AMD 150.0 billion is envisaged, which, however, is not included in this Program: the expenditure directions and plans are still in the pipeline, so assessing the possible course of expenditures and measuring their impact on aggregate demand is difficult at the moment.

In the forecast horizon, risks to the inflation path and economic growth are generally high and tend to either direction, depending on the length of the epidemic situation and the pace of anti-epidemic measures (see subsection 2.2.4 "Main assumptions and risks"). To assess the risks, the Central Bank is developing and considering different alternative scenarios and is ready to respond, while fulfilling the goal of price stability in the Republic of Armenia.

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[Graphs and tables Q1,2020](#)