

Inflation report 2019/4 (Monetary Policy Program Q4, 2019, Status report on implementation of the Monetary Policy Program, Q3, 2019)

2019-12-23

The low inflation environment persisted over the fourth quarter of 2019, and the Central Bank of the Republic of Armenia (the Central Bank) continued carrying out an expansionary monetary policy.

In view of the current monetary policy and expected economic developments, the 12-month inflation will be running at a low level for a while; at the end of 2019 it will be in the range of 0.8-1.2%. On the back of the current macro-environment, the Central Bank prefers to inflation recovering gradually and estimates that presently the low inflation contributes to anchoring long-term inflation expectations and maintaining the purchasing power of income. As a result, the inflation will recover gradually in the medium term and stabilize around the target at the end of the forecast horizon.

The Central Bank considers the current policy rate to be sufficient to support the projected inflation path, so the Central Bank Board has decided to leave the refinancing rate unchanged. If macroeconomic developments unfold under the baseline scenario, the policy, the Central Bank estimates, will still need to be stimulative, while having the inflation gradually return to its target in the medium term.

Besides persistently weak inflation in the external environment, a low inflation continues to be shaped by supply-side factors, such as increasingly competitive product markets (determined by a common EAEU market and structural reforms) and a certain shift in demand for short-term consumer goods to long-term ones, which helps raise resource efficiency in the non-tradable sector.

According to the Central Bank's short-term forecasts, the 2019 economic growth will be in the range of 7.0-7.3%, and will approach its long-term equilibrium in the medium run.

The 2019 economic growth was mainly driven by private consumption. Mid-term economic growth will largely be determined by expanding of production capacities, the pace at which the Government will push forward the structural reforms and what economic growth

potential can be expected in partner countries.

In the forecast horizon, risks to the inflation path are generally balanced but slightly upside risks to the economic growth prevail. If predicted macroeconomic developments unfold and these risks materialize, the Central Bank will adjust the monetary conditions accordingly, while fulfilling the goal of price stability.

[\(Monetary Policy Program Q4, 2019, Status report on implementation of the Monetary Policy Program, Q3, 2019\)](#)