

Inflation report 2018/1 (Monetary Policy Program Q1, 2018. Status report on implementation of the Monetary Policy Program, Q4, 2017)

2018-02-23

Executive summary

According to the Q1, 2018 Monetary Policy Program of the Central Bank of Armenia (“the Central Bank”), inflation will somehow expand in the upcoming months, fluctuating within the confidence band; in the medium-term perspective it will stabilize around the 4% target.

Positive developments in the macroeconomic environment expected in the short run will largely facilitate the fulfilment of the 12-month inflation target, owing to still visible influence of expansionary monetary policy implemented by the Central Bank and relatively robust demand recovery expected both in the external and domestic economic environment. The Central Bank’s expansionary monetary policy conducted in 2017, aimed at facilitating the recovery of domestic demand and inflation, will be also persisting over the first quarter of 2018 to enhance sustained recovery of domestic demand. That is, in the last quarter of 2017 the Central Bank estimated that short-term inflation expectations of the public would somewhat soften at the start of 2018 as they are mainly conditioned by supply factors. In the first quarter of 2018, as was expected, additional inflation expectations mitigated, so there is no need for a faster policy response. However, in the light of predicted macroeconomic developments expansionary monetary conditions to phase out gradually will be needed in the medium run in fulfillment of the inflation target.

High economic activity persisted over the fourth quarter of 2017 too, and the Central Bank estimates a higher rate of economic growth for 2017 against the previous forecast. Compared to the previous forecast, a higher level of aggregate demand is also expected, explained by both increased core inflation and high import growth. The expectation is that temporary factors that determine acceleration of economic growth in the forecast horizon will gradually eliminate, and it will hover around its long-term equilibrium.

In the short run, risks to inflation and economic growth are mainly dual-sided, and are determined by possible developments in the agricultural sector. In the medium run, risks to inflation and economic growth are mostly upside – they will be attributable to quicker

recovery of external demand, faster rising prices in international commodity and food product markets against previous forecasts, and a longer-term nature of domestic demand, consumption growth in particular.

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