

# Inflation report 2018/2 (Monetary Policy Program Q2, 2018. Status report on implementation of the Monetary Policy Program, Q1, 2018)

2018-05-29

## Executive summary

Inflation slowed down to a certain extent in the first quarter of 2018, driven by the fall in prices of seasonal products. However, under current monetary policy, inflation will continue expanding over 2018, fluctuating within the confidence band; in the forecast horizon it will stabilize around the 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 persisting influence of expansionary monetary policy and continued recovery in demand in the external environment. Actual developments over the past period of 2018 show that the 12-month inflation rate continued increasing in the first quarter, but declined in the second quarter due to the fall in prices of seasonal agricultural products. The estimation is that this has been a seasonality shift and will be restored in the upcoming quarters. In view of the need to strengthen the domestic demand recovery and evaluating that short-term inflation expectations of households have generally stabilized and no additional inflation developments are expected under the current conditions, the Board of the Central Bank decided to keep the refinancing rate unchanged, leaving the monetary policy direction expansionary.

However, in the light of predicted macroeconomic developments, expansionary monetary conditions to phase out gradually will be needed in the medium run, in fulfilment of the inflation target.

High economic activity was still persisting over the first quarter of 2018, which will gradually eliminate starting from the second quarter, approaching its long-term equilibrium.

According to the baseline scenario, mid-term economic growth trends are largely determined by the economy's fundamentals, as well as the implementation of investment programs, the pace of Government-led structural reforms, and by anticipated potential of

economic growth in partner countries. It should be noted that the political events in Armenia resulted in a very short-term slowing in growth rates of domestic demand and economic activity in the second quarter, but they will not affect macroeconomic developments in the mid-term perspective.

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 estimated to be balanced, in which circumstance the 12-month inflation rate is within the confidence band.

If the aforementioned risks materialize, the Central Bank will react by adjusting its monetary conditions accordingly.

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