

Inflation report 2018/4 (Monetary Policy Program, Q4, 2018, Status report on implementation of the Monetary Policy Program Q3, 2018)

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Executive summary

In the fourth quarter of 2018, both headline and core inflation rates slowed down to a certain extent. Under an expansionary monetary policy implemented by the Central Bank and expected economic developments, the 12-month inflation rate will behave steadily, remaining close to the lower part of the confidence band; in the forecast horizon it will stabilize around the 4% target.

A low inflation environment persisted during the third quarter and the 12-month inflation rate mainly fluctuated within the lower part of the confidence band. In spite of supply shock-driven inflationary effects in some commodity markets, reducing of core inflation and short-term inflation expectations was observable, primarily due to weaker-than-expected demand developments. In a current macroeconomic situation and low inflation environment, the policy rate is now estimated stimulating enough, so the Central Bank has left it unchanged, keeping the monetary conditions expansionary. At the same time, in the light of upcoming developments, abandoning expansionary monetary conditions will take place at a slower pace in order to give the economic recovery rates more sustainable impulses.

Growth rates of high economic activity observable during the first half of 2018 slowed down slightly in the third quarter due to both the supply-driven and weak domestic demand factors. It is estimated that economic growth in the forecast horizon will recover, approaching its long-term equilibrium.

According to the baseline scenario, mid-term economic growth trends will largely depend on the economy's fundamentals, investment activity and expanding of production capacities, on the one hand, and the pace at which the Government will push forward the structural reforms and what economic growth potential can be expected in partner countries, on the other.

Risks to inflation and economic growth outlook in the short run and medium run are dual-

sided, yet downside risks tend to prevail (see subsection 2.2.4 “Main assumptions and risks”).

The Central Bank keeps a watchful eye on macroeconomic developments: in the event the risks deviate from a prediction path, the Central Bank will react accordingly, while ensuring price stability.

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[Graphs and tables \(3rd quarter\)](#)