

Inflation report 2017/4 (Policy Program Q4, 2017. Status report on implementation of the Monetary Policy Program Q3, 2017)

2017-11-24

Executive summary

According to the Q4, 2017 Monetary Policy Program of the Central Bank of Armenia (“the Central Bank”), inflation will continue expanding, stepping in the confidence band in the upcoming months; in the medium-term perspective it will stabilize around the 4% target, influenced by the pace of the monetary policy.

Positive developments in the macroeconomic environment expected in the short run will largely contribute to the recovery of the 12-month inflation rate, owing to still visible influence of expansionary monetary policy implemented by the Central Bank and relatively robust recovery in demand expected both in the external and domestic economic environment. During the year the monetary conditions remained expansionary, making it possible for domestic demand and inflation as well as core inflation to recover. However, expansionary monetary conditions to phase out gradually will be needed in the near future in fulfillment of the inflation target in the medium term.

In view of economic activity still high in the third quarter of 2017, the Central Bank has again revised the 2017 economic growth forecast slightly upside. The forecast of aggregate demand has been adjusted upward too, taking into account its rapid recovery in the last nine months of the year, reflecting both expanding core inflation and high growth in imports and services. In the forecast horizon, the economic growth rates will accelerate, gradually approaching the long-term equilibrium.

In the short run, downside risks to inflation somewhat prevail as prices of seasonal agricultural products prices may have restored not adequately. From 2018 to the end of the forecast horizon, inflationary risks go upward, largely due to the expansion of the inflation environment in international commodity markets and the pace of recovery in domestic demand.

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