

Status Report on Implementation of the Monetary Policy Program (Q4, 2019 - Q3, 2020)

2020-11-20

(2020/3) During the year preceding the fourth quarter of 2020, the inflationary environment in Armenia remained low due to both demand and supply-side factors. Thus, in the course of the fourth quarter of 2019 and first quarter of 2020 the Government carried out somewhat a contractionary fiscal policy, and mainly deflationary effects were transmitted from the outside world. The low inflationary environment was also driven by diverse competition observable in a number of commodity markets and structural shift in demand from non-durable consumer goods market to durable consumer goods market. In the meantime, a relatively high growth of private consumption was registered, mainly owing to the positive impact of lending by the financial sector. Significant deflationary factors emerged in the second and third quarters of 2020, and these derived mostly from the coronavirus pandemic that broke out in the world and Armenia early in the year, measures taken to prevent it, and changed behavioral patterns. In the current situation, despite the considerable extent of stimulative fiscal policy implemented, there has been a significant decline in economic activity and aggregate demand, mainly due to reducing private consumption and postponed investments under high uncertainty about the economic outlook. To contain deflationary pressures and bring the inflation close to the target in the 3-year forecast horizon, the Central Bank has meantime increased the amount of stimulus of the monetary policy by gradually reducing the refinancing rate by a total 1.25 pp: as of end-September 2020 it makes up 4.25%.