

Status Report on Implementation of the Monetary Policy Program (Q1, 2020 - Q4, 2020)

2021-02-25

(2020/4) The monetary policy carried out by the Central Bank of Armenia in 2020 was steered to ensuring a 4% target for the 12-month inflation in the forecast horizon. The inflationary environment remained low during the year mainly due to a weak demand which had been driven notably by consequences of COVID-19 outbreak in the world and Armenia since the beginning of the year and health and economic effects of the martial law declared in the country on September 27th. They were reflected in both a decline in economic activity and considerable weakening of aggregate demand. In such a situation, the Government carried out a significant stimulative fiscal policy aimed at providing social and economic assistance. However, in the face of grown uncertainty stemmed from the pandemic and the martial law, the public has demonstrated precautionary behavior for consumption and investment, which, despite fiscal stimulus, has led to a weak domestic demand and a low inflationary environment. In 2020, in order to bring 12-month inflation closer to its target, the CBA continued to pursue a stimulative monetary policy. Thus, in January-November, the CBA has increased the size of stimulus by gradually reducing the refinancing rate by a total of 1.25 percentage points. In December, when inflation and inflationary expectations were expected to somehow accelerate in anticipation of inflationary effects from the external sector and patterns of depreciation of the dram in the currency market, the CBA raised, in a bigger step, the interest rate by 1.0 percentage point to 5.25%. As a result, the 12-month inflation increased gradually during the year and at a faster pace at the end of the year, reaching 3.7% - rather close to the target - in December.