

# The Monetary Policy Program of the Republic of Armenia 2005

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(2005/1) Introduction

*The Monetary Policy Program of the Republic of Armenia (the Program) has been prepared in compliance with the provisions of the Armenian Law on the Central Bank of the Republic of Armenia (ALCB). It consists of the following sections:*

*The macroeconomic environment;*

*Fiscal policy;*

*External sector;*

*Inflation;*

*Directions and trends of the 2004 monetary policy;*

*Main objectives and directions of the 2005 monetary policy;*

*Risks in implementing the monetary policy program;*

*Developments in the banking system; and*

*Developments in payments and settlements.*

*All sections of the Program, except for the section on monetary policy, outline the main trends in the respective areas in 2004 and the main directions of development laid out for 2005. The monetary policy, as a key instrument for achieving the main objective of the Central Bank of the Republic of Armenia (the CBA), is presented in the Program in two sections. The first section gives a detailed account of the monetary policy indicators and trends of 2004, and the second section provides the main directions and set of instruments of the monetary policy to be implemented in 2005.*

*Annexes to the Program provide a forecast of the main macroeconomic indicators for 2005*

*covering all sectors of the economy, and the methods which were used to make the forecast. Overall, the macroeconomic environment in 2005 will evolve as follows:*

*Economic growth is forecast to be 8% according to the Armenian Law on the State Budget (ALSB) for 2005. The GDP deflator will exceed the annual average consumer price index (CPI) and reach 4%.*

*In the external sector, the share of the current account deficit of the balance of payments in the GDP will continue to decline to 3.4% in 2005 against 4.0% in 2004. The deficit of the balance of trade will show similar patterns; though it will rise in absolute terms by 12.1%, its share of the GDP will shrink to 12.0% against 13.2% in the previous year. As a result of implementing the fiscal policy, the state budget deficit in GDP will be 2.3%. Despite a low deficit level, conversion at the CBA and spending of large-scale foreign exchange (FX) funds, disbursable through the state budget, will draw a marked expansionary impact on the monetary aggregates.*

*Considering these developments in the macroeconomic environment, and the effects which would be generated from certain measures towards reducing dollarization in 2005, much higher growth rates are anticipated for broad money (annual average 17.0%) and the monetary base (annual average 13.6%) compared with 6.1% and 7%, respectively, in 2004. In the outcome of such a scenario of the monetary policy, and by using economic and mathematical models for inflation forecasts, the CBA has projected up to 3% as the inflation indicator as of the end of the period, and an annual average of 2.2% for the inflation indicator.*

#### [The Monetary Policy Program of the Republic of Armenia 2005](#)