

The Monetary Policy Program of the Republic of Armenia Q1, 2009

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(2009/1) Performance and Developments in 4th Quarter of 2008

Inflation was 0.9% in the fourth quarter of 2008, while 12-month inflation fell by 6.1 percentage points over the previous quarter to reach 5.2%. Starting from Q2 2007 until Q3 2008 tightening of the monetary conditions by the CBA, together with the passthrough of the external sector deflationary environment impact in Q4 2008 allowed achieving the $4 \pm 1.5\%$ inflation target.

Given the inflation developments in Q4 2008, CBA announced about the change of the monetary policy direction, adopting the policy of gradual loosening of monetary conditions. The latter was reasonable as there arose the need of efficient combination of price and financial stability objectives. On the whole, inflation annually was due to higher prices of foodstuffs (including alcoholic beverages and tobacco), which grew by 3.3% (contributing 1.8 percentage points to inflation), non-food products (growth of 0.2%, contributing 0.03 percentage points), and service tariffs (growth of 11.4%, contributing 3.4 percentage points). Meanwhile, core inflation was only 0.43% in Q4, whereas 12-month core inflation fell by 1.6 percentage points relative to September, reaching 5.4%.

Inflation in Q4 2008 was driven by the following developments of the external world and the domestic economy.

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