

**National Research University "Higher School of Economics"**

**BRICS–Russia Expert Council**

**Department of World Economy, Faculty of World Economy and International Relations**

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# **«INFLATION TARGETING IN DEVELOPING COUNTRIES: TRIGGER OF DEVELOPMENT OR FACTOR OF SLOWING DOWN OF ECONOMIC GROWTH?»**

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## INFLATION

## MODERN MONETARY POLICY

Floating exchange  
rate regimes

Inflation  
expectations

High-quality  
supervision of  
financial institutions

Restricting banks'  
access to the stock  
exchange

### IMPACT ON THE BANKING SYSTEM

#### Instruments of monetary policy

Discount rate  
Reserve rate  
Interest rate control  
Credit resource rationing  
Targeted and direct loans  
Financial portfolio rationing  
Expectations

### IMPACT ON FINANCIAL MARKETS

Open market operations  
Expectations

## FINANCIAL STABILITY

### OBSTACLES



**INFLATION EXPECTATIONS**



**THE STRENGTHENING OF FINANCIAL  
MARKETS BLURS THE BOUNDARIES  
BETWEEN NATIONAL MONETARY SYSTEMS**

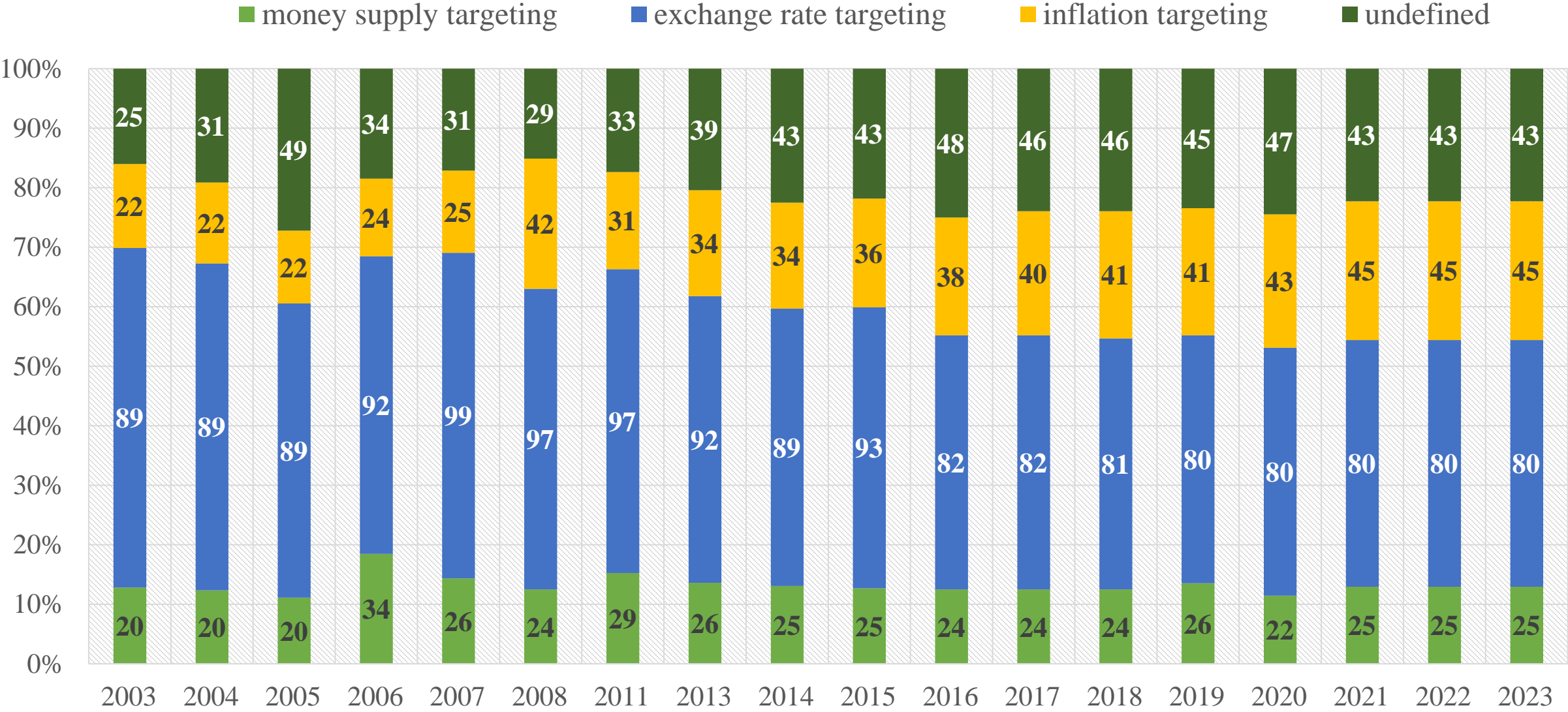


**GLOBALIZATION PROCESSES REDUCE THE  
INDEPENDENCE OF NATIONAL CENTRAL  
BANKS.**



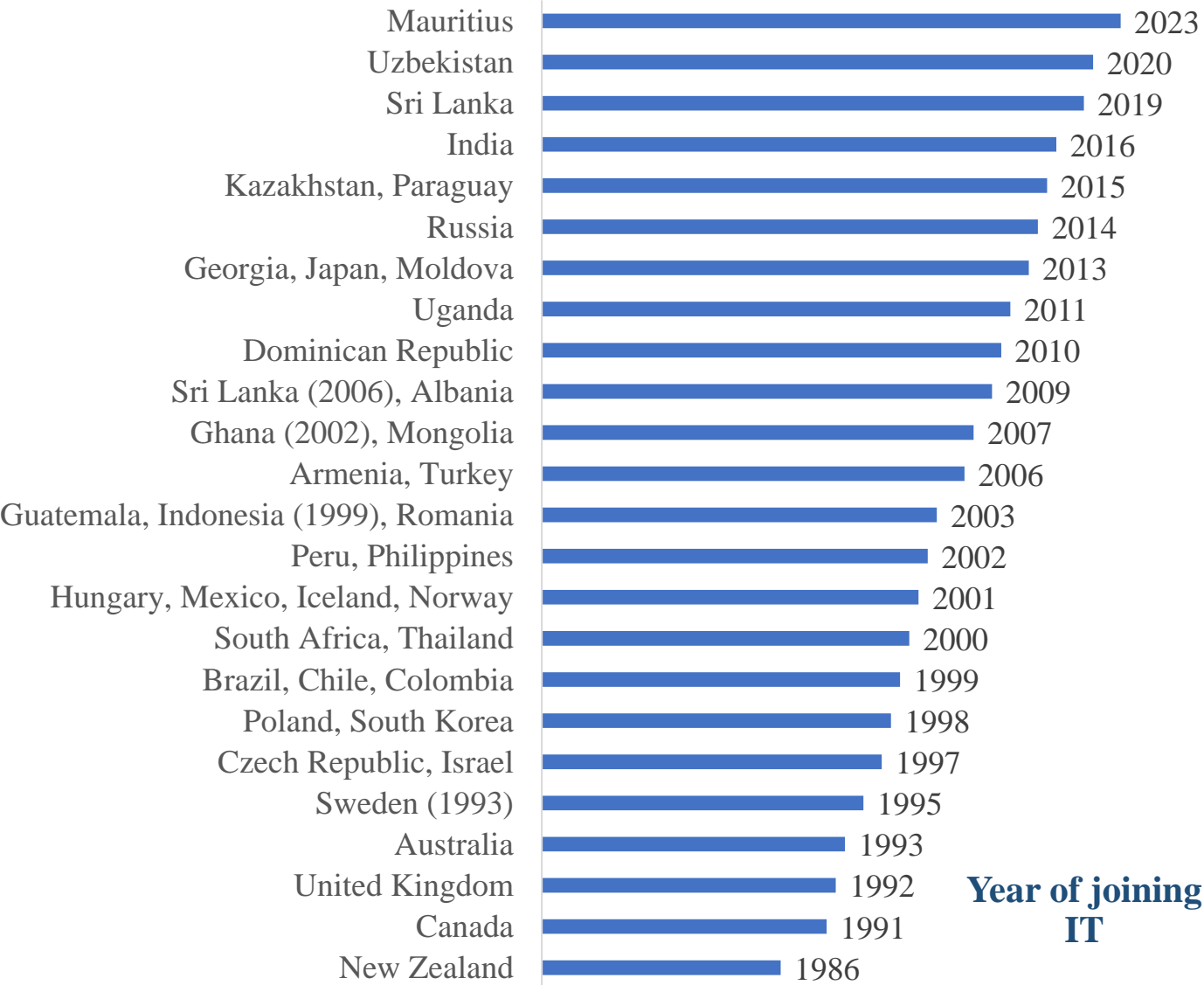


# Grouping of countries based on their monetary policy regime





# INFLATION TARGETING



## REQUIRED CONDITIONS

- Public announcement of the inflation target and the accountability of the Central Bank or other government officials for achieving the stated goal.
- The ability to use all available instruments to achieve the target.
- The Central Bank has effective tools for constructing predictive models of inflation behavior.
- Well-developed financial market institutions.
- Ensuring the independence of the Central Bank from the government, while ensuring consistency in the implementation of monetary and fiscal policies.

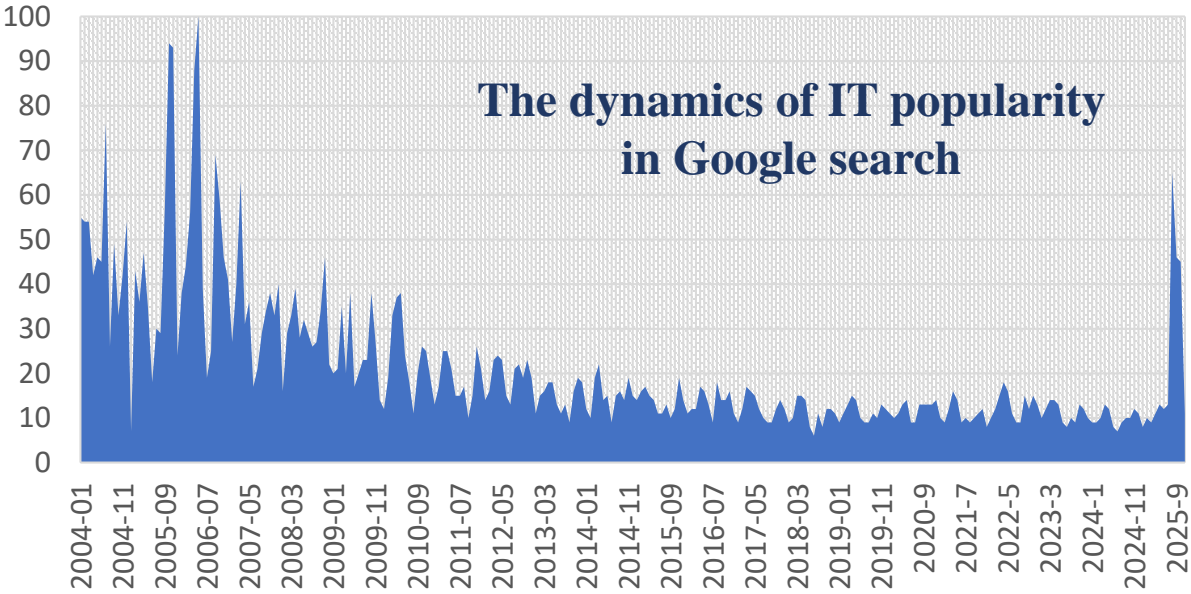




# INFLATION TARGETING

## Key Features:

- ❖ A clearly defined central bank objective that allows for the achievement of a given inflation target, either as a single value or as a range of values;
- ❖ The absence of other primary monetary policy objectives;
- ❖ The priority of monetary policy;
- ❖ The independence of the central bank in the choice of monetary regulation instruments;
- ❖ Transparency and public accountability of the central bank.



## Main disadvantages

*signal delay*

*excessive rigidity*

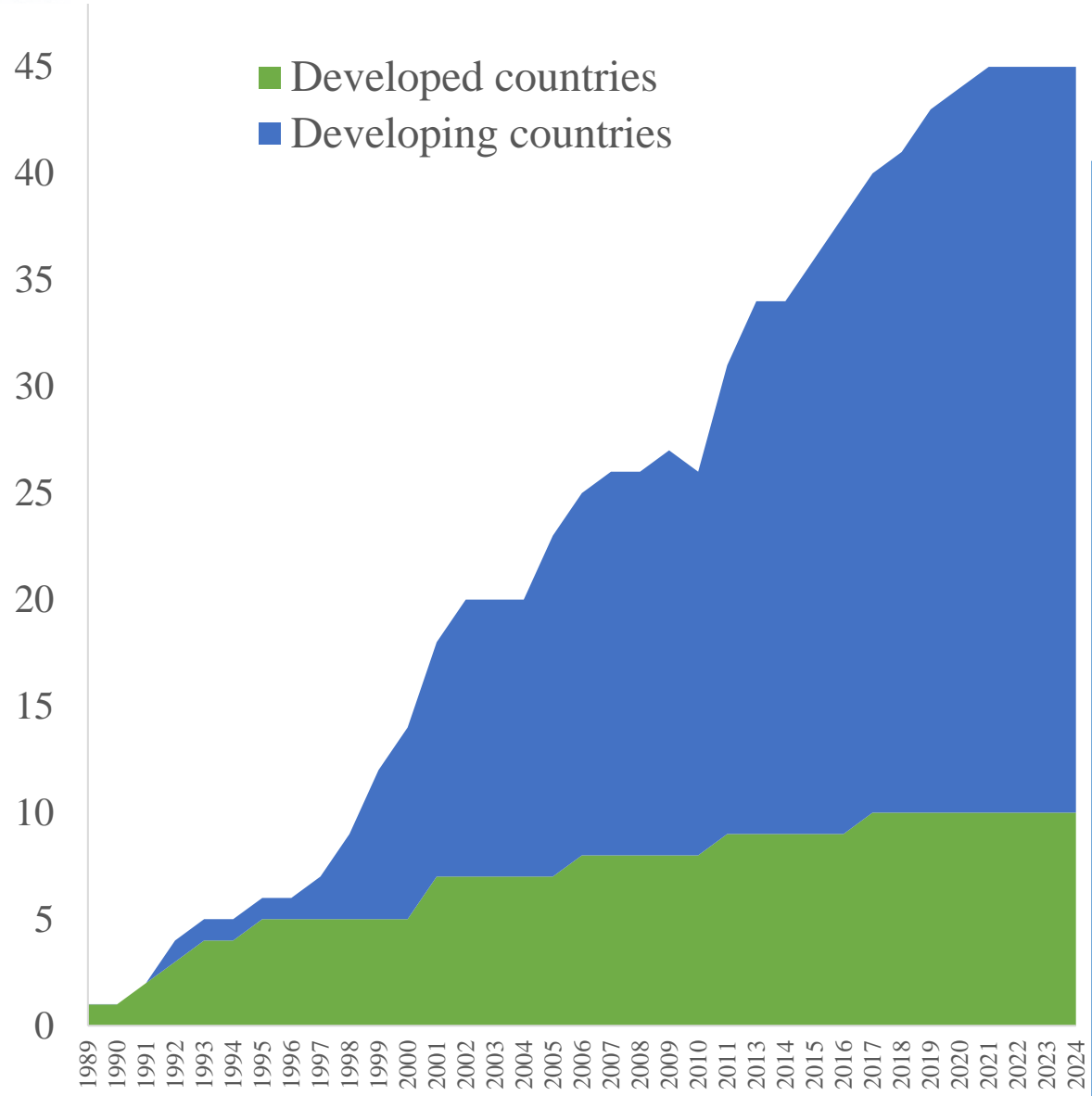
*the possibility of increased fluctuations in economic productivity*

*slowdown in economic growth*





# INFLATION TARGETING



## Exchange rate regimes in countries implementing inflation targeting

Stabilized arrangement	Other managed arrangement	Floating
Armenia Guatemala Romania Serbia	Ghana Dominican Republic	Albania Brazil Chile Costa Rica Czech Republic
Crawl-like arrangement	Free floating	Georgia Hungary Iceland India Kazakhstan Indonesia South Korea Moldova New Zealand Mauritius Paraguay Peru Philippines South Africa Thailand Uganda Uruguay
Jamaica Kenya Mongolia Sri Lanka Türkiye Uzbekistan	Australia Canada Japan Mexico Norway Poland Russia Sweden United Kingdom	





# The Impact of the Transition to Inflation Targeting on GDP (Research Review)

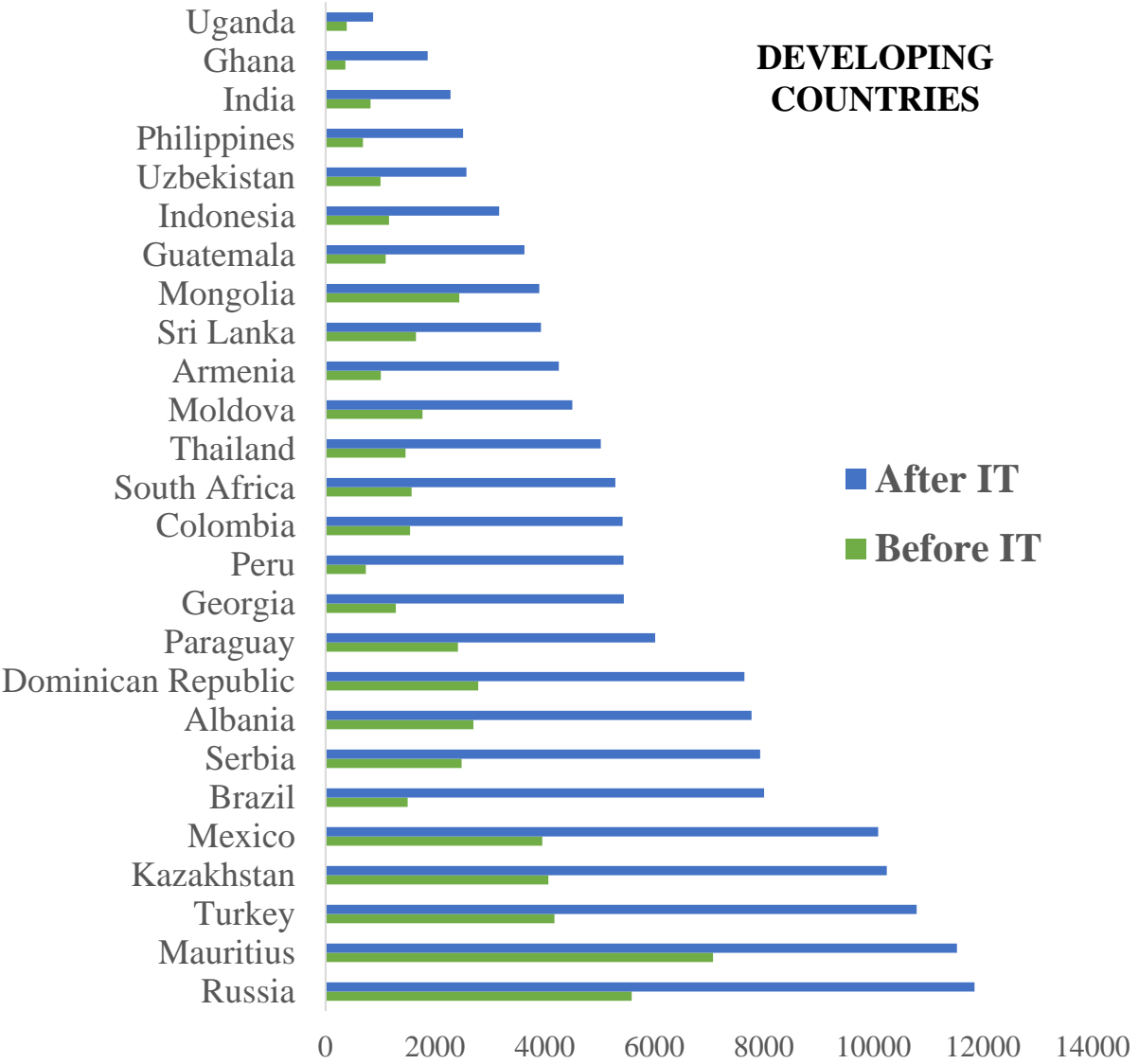
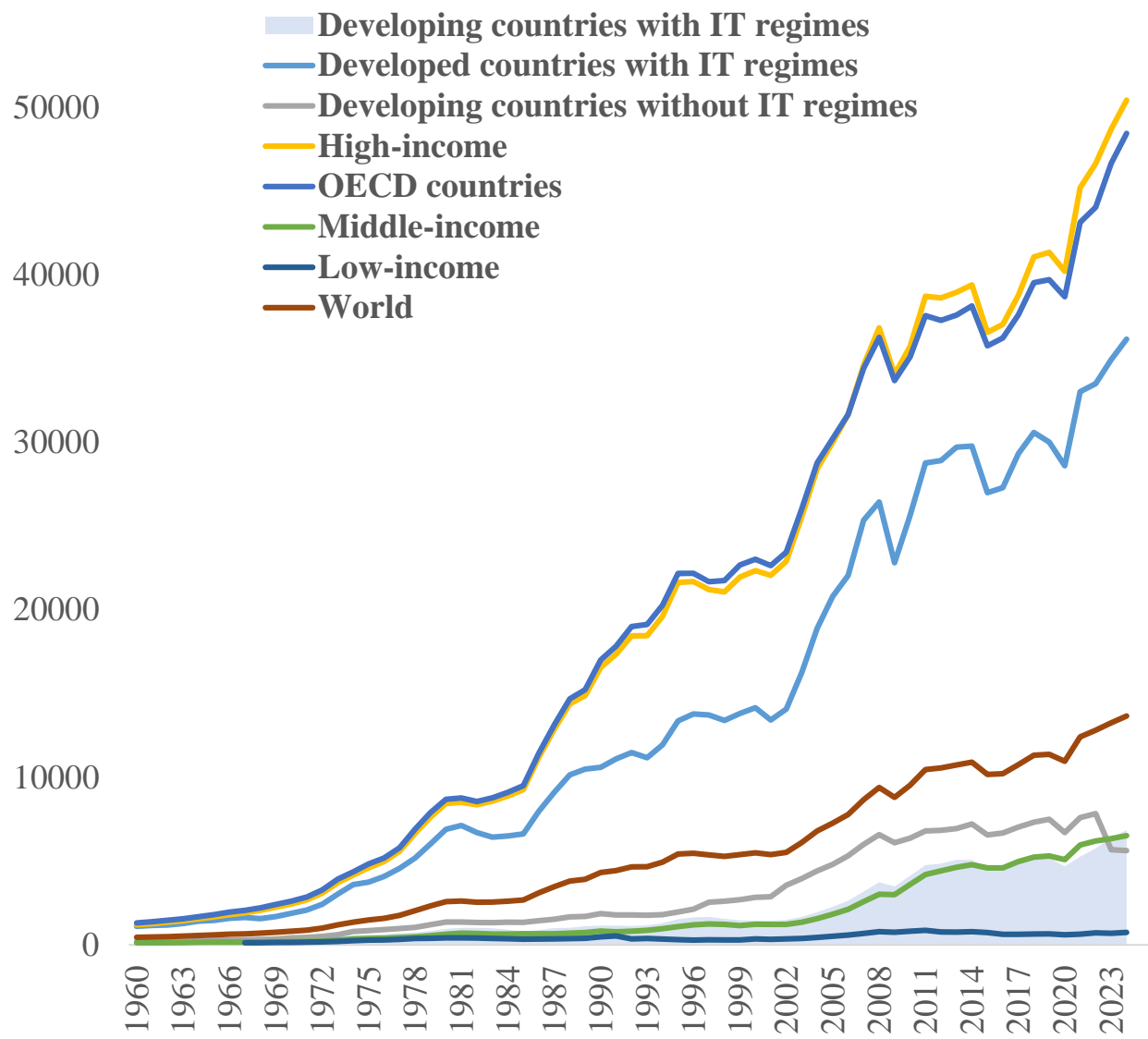
<b>Authors</b>	<b>Countries in the sample</b>	<b>Conclusion on the impact of IT adoption on long-term output dynamics</b>
<i>Hu, 2003</i>	Developed and developing	Positive
<i>Sheridan, Ball, 2005</i>	Developed	No influence
<i>Walsh, 2009</i>	Developed	No influence
<i>Fang et al., 2009</i>	Developed and developing	No influence
<i>Brito, Bystedt, 2010</i>	Developing	Negative
<i>Moll ick et al., 2011</i>	Developed and developing	Positive
<i>Kurihara, 2013</i>	Developed and developing	Positive
<i>Ayres et al., 2014</i>	Developed and developing	Positive
<i>Haie, Phihppov, 2015</i>	Developed and developing	Positive
<i>Kapmaev u òp., 2016</i>	Developed and developing	Positive in developed countries; no impact in developing countries
<i>df Guimarães e Souza et al., 2016</i>	Developed and developing	Positive

Source: Kartaev F.S. Is inflation targeting beneficial for economic growth?





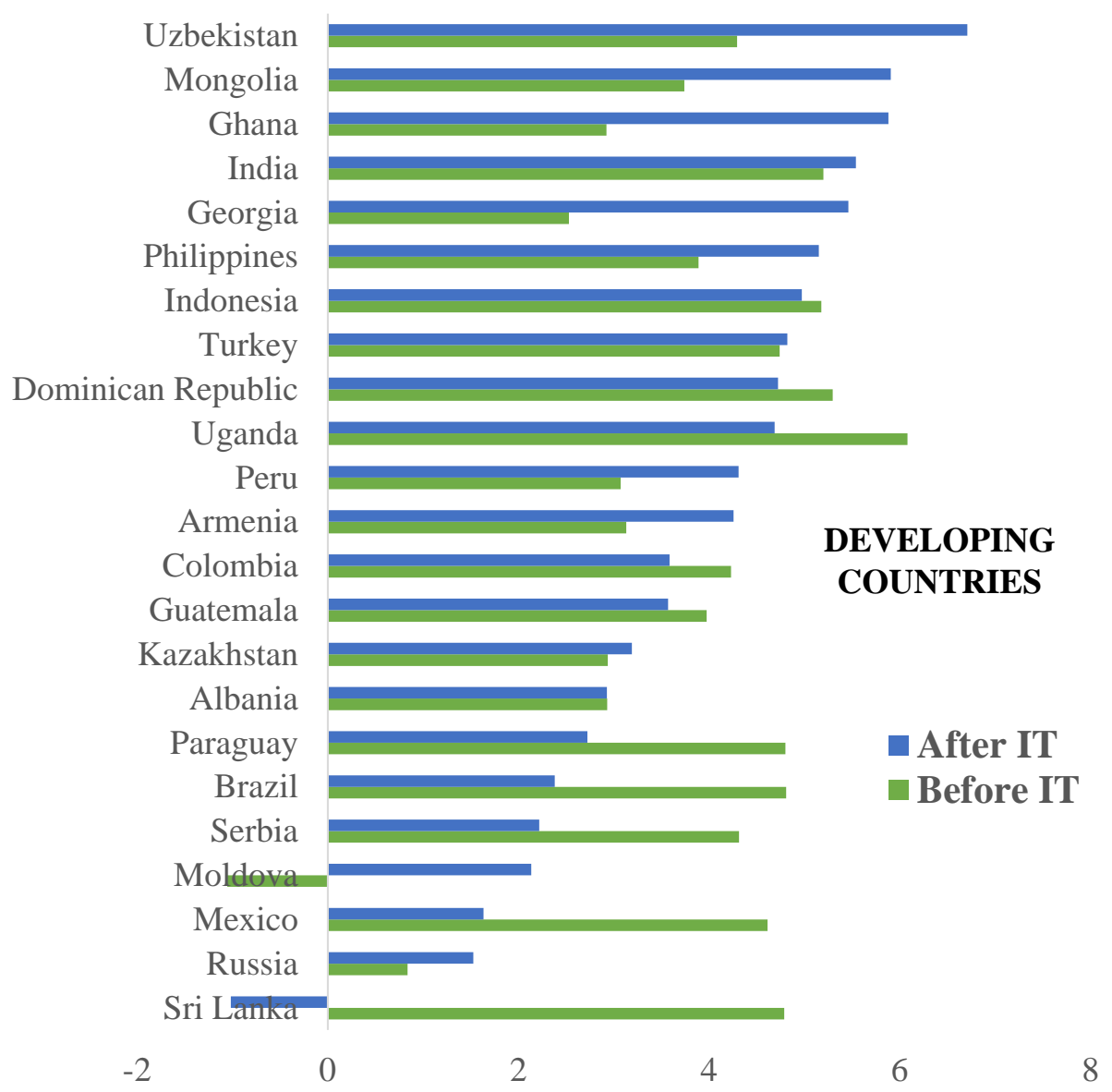
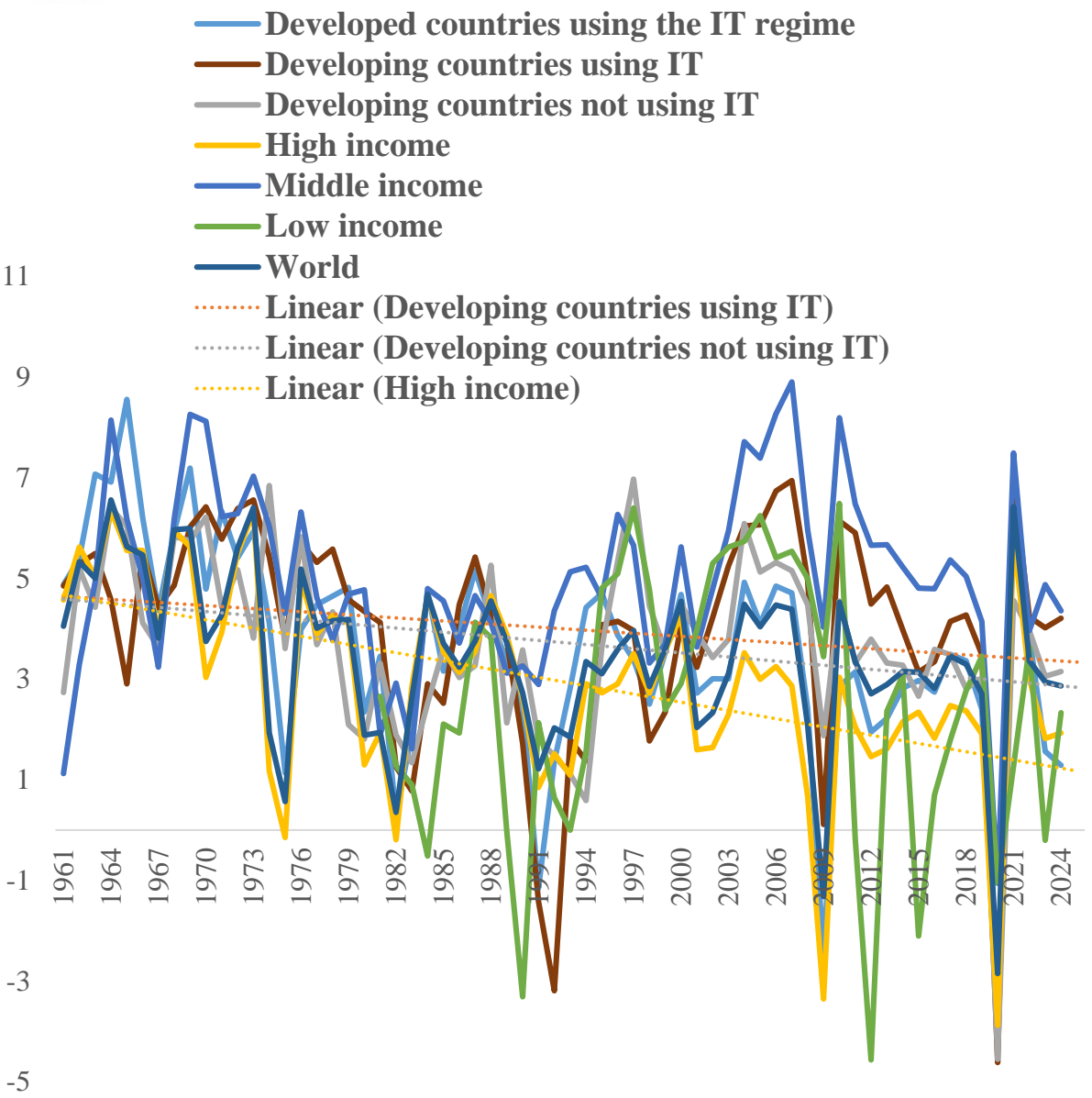
# GDP per capita (current US\$)





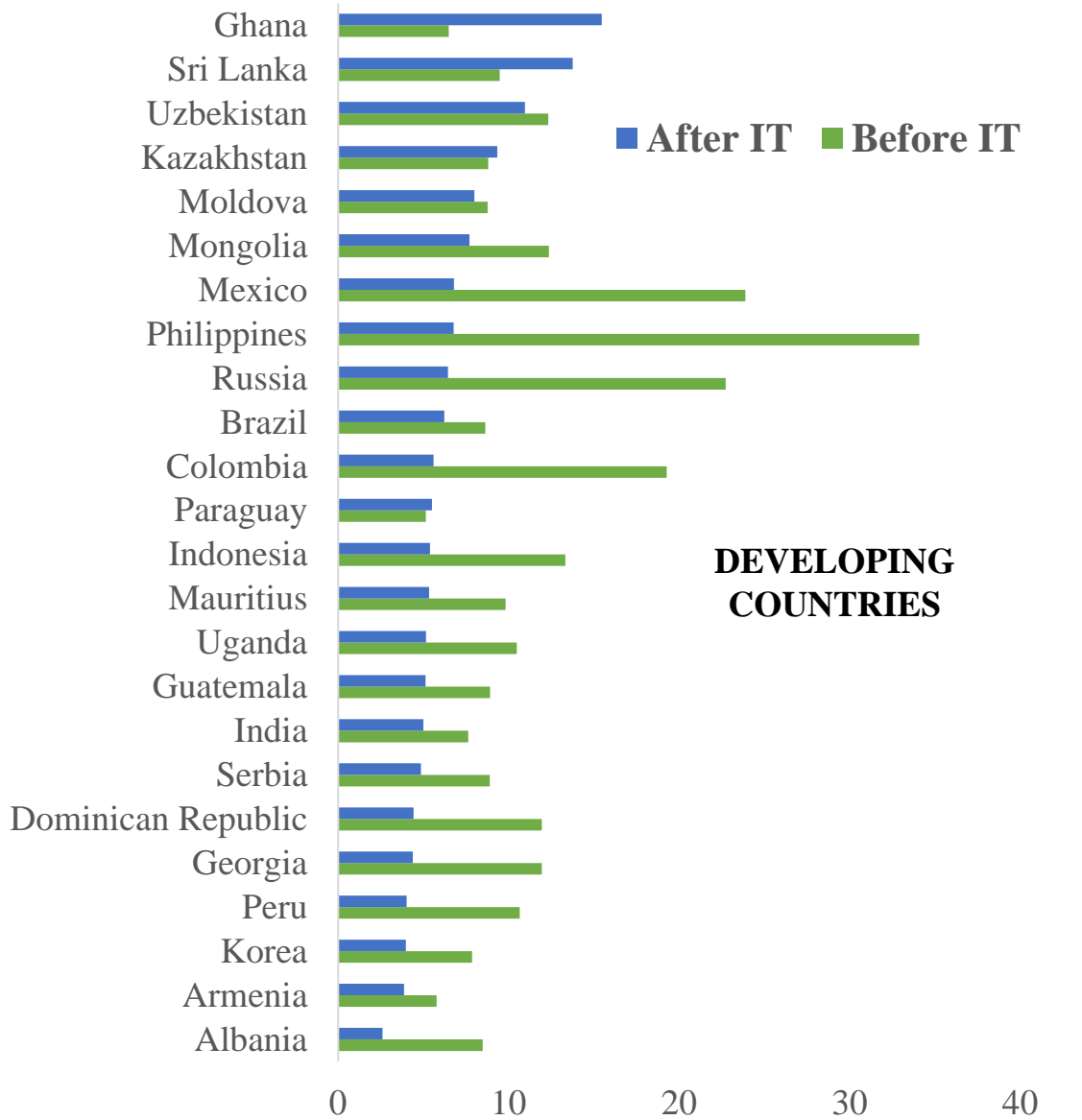
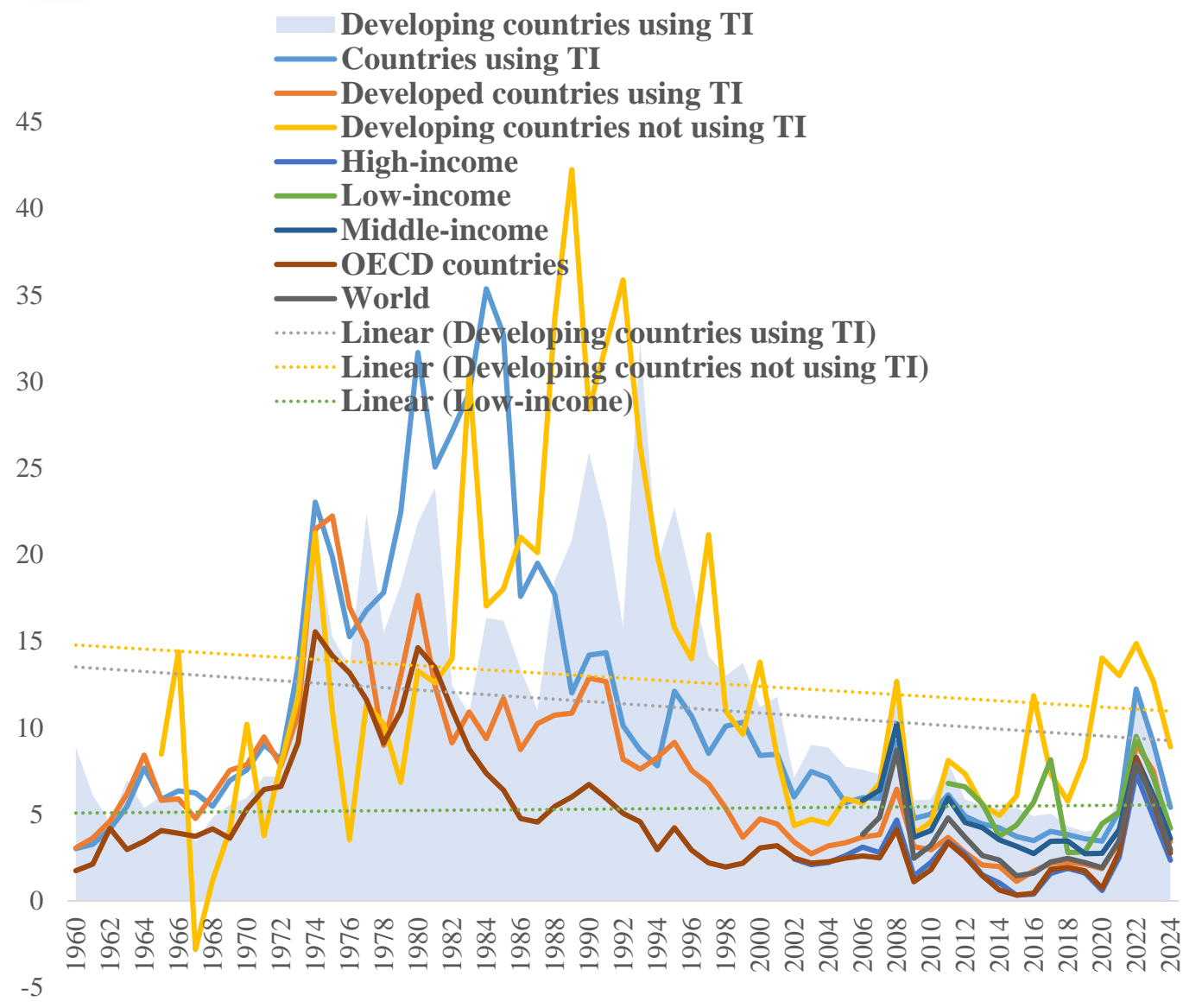


# GDP growth (annual %)



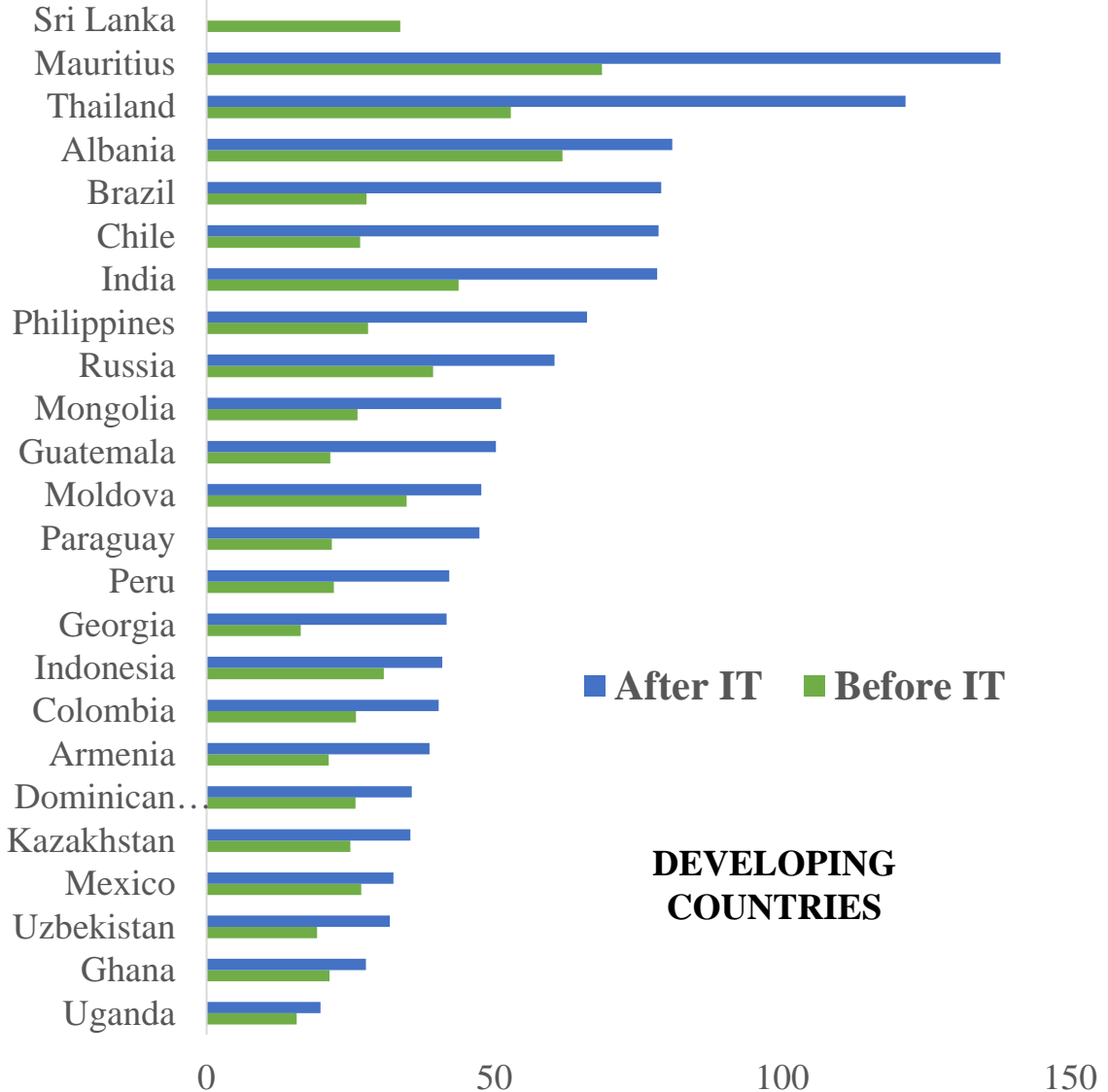
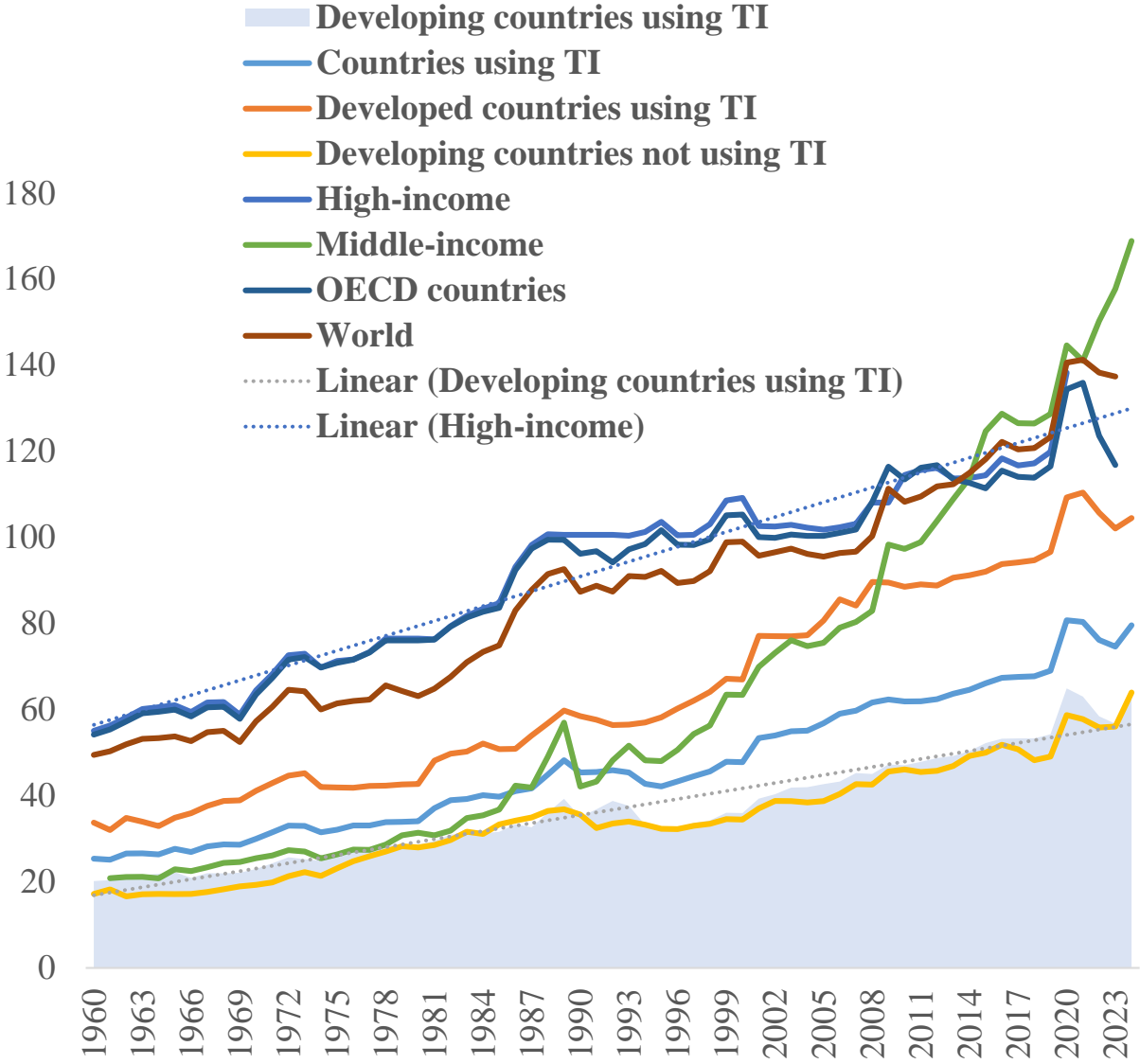


# Inflation, consumer prices (annual %)



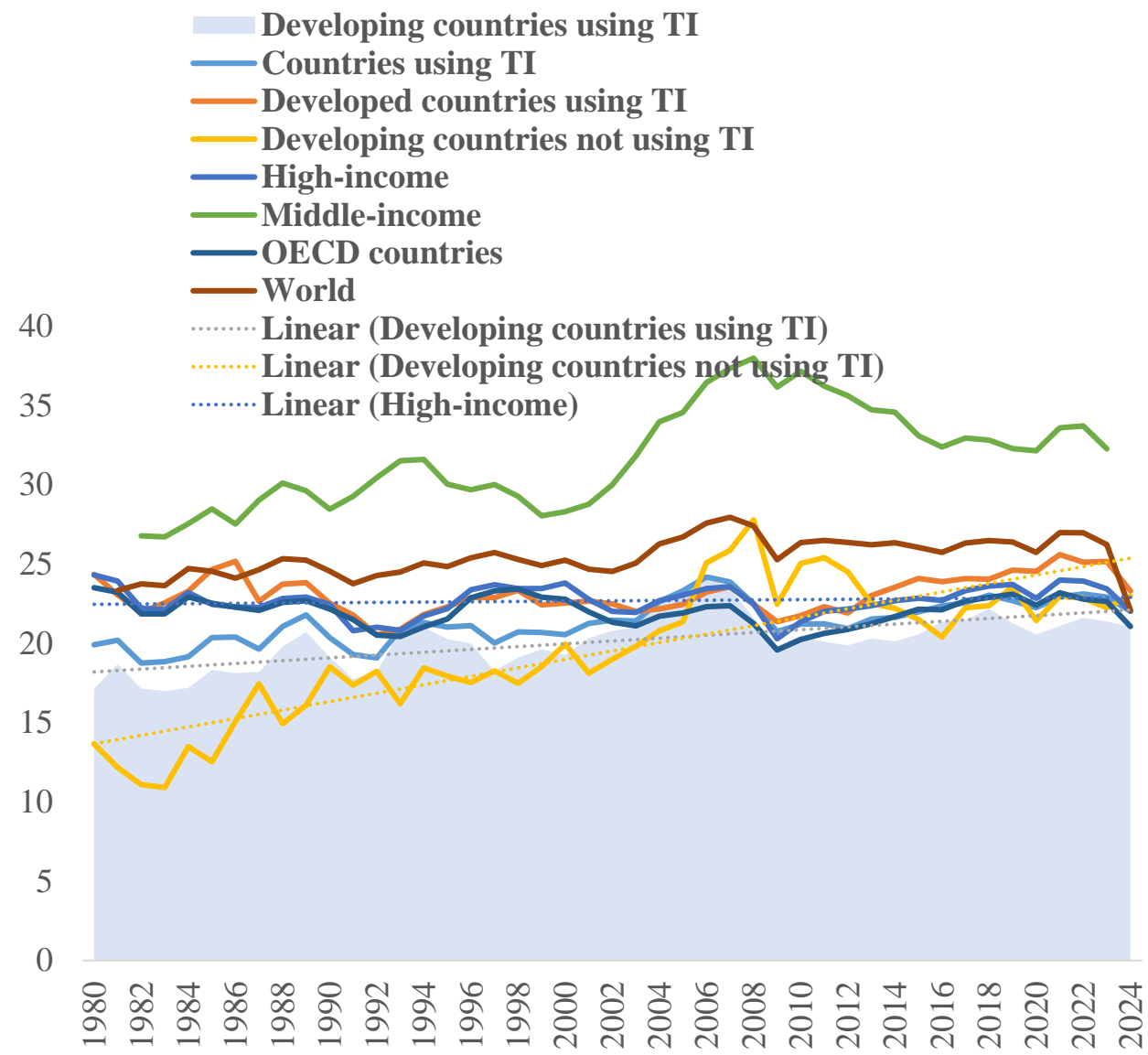


# Broad money, % of GDP

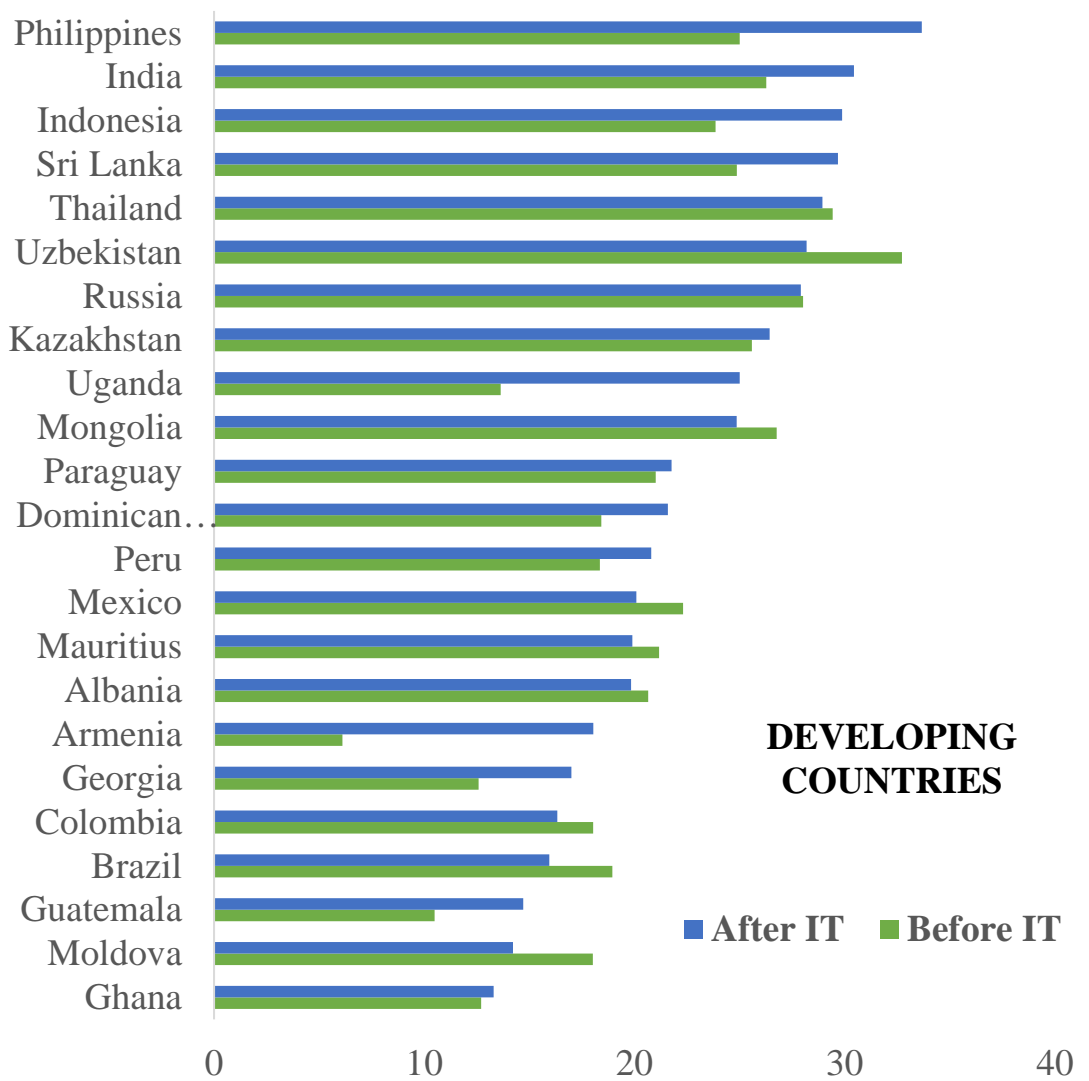




# Gross domestic savings (% of GDP)



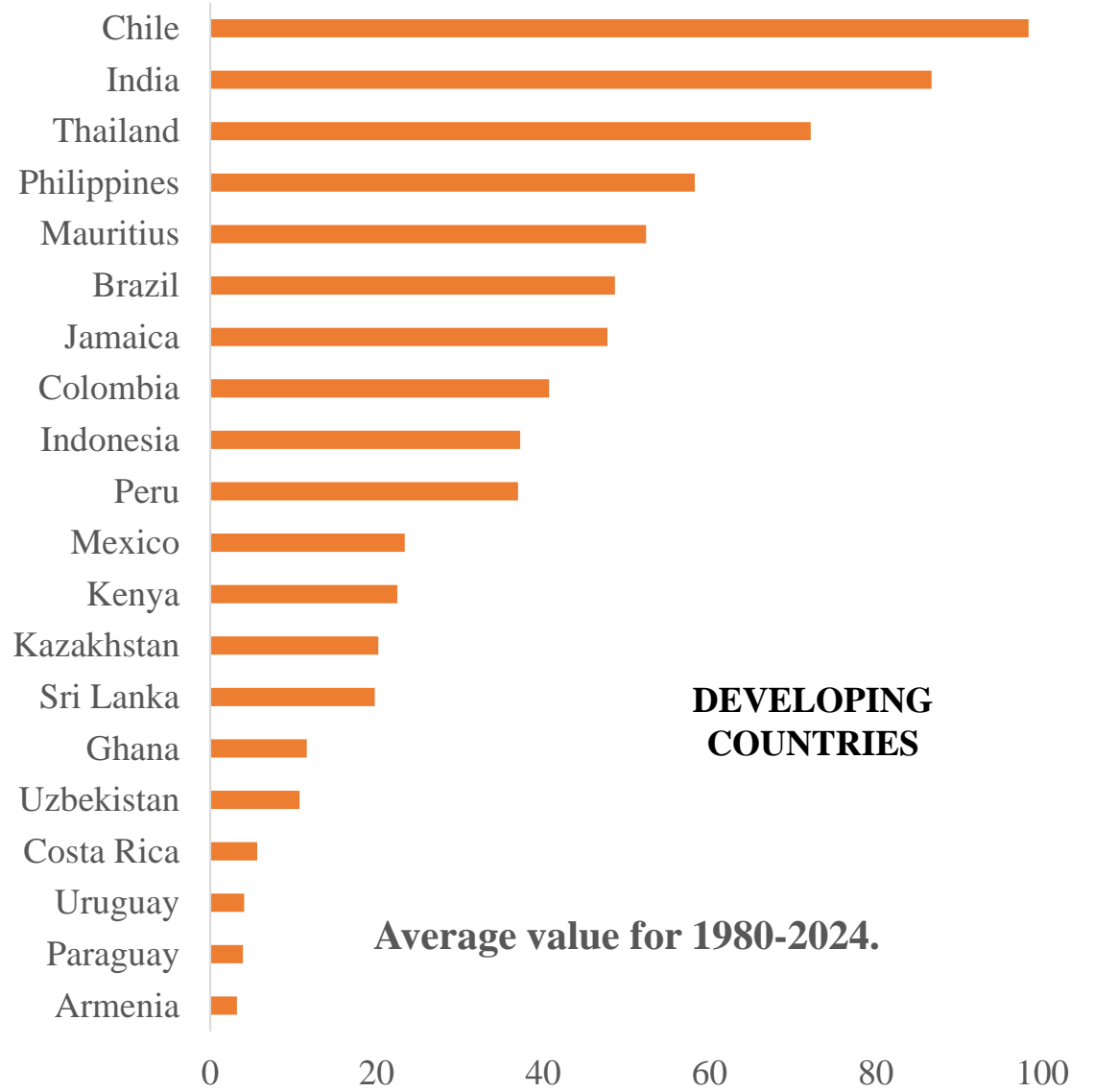
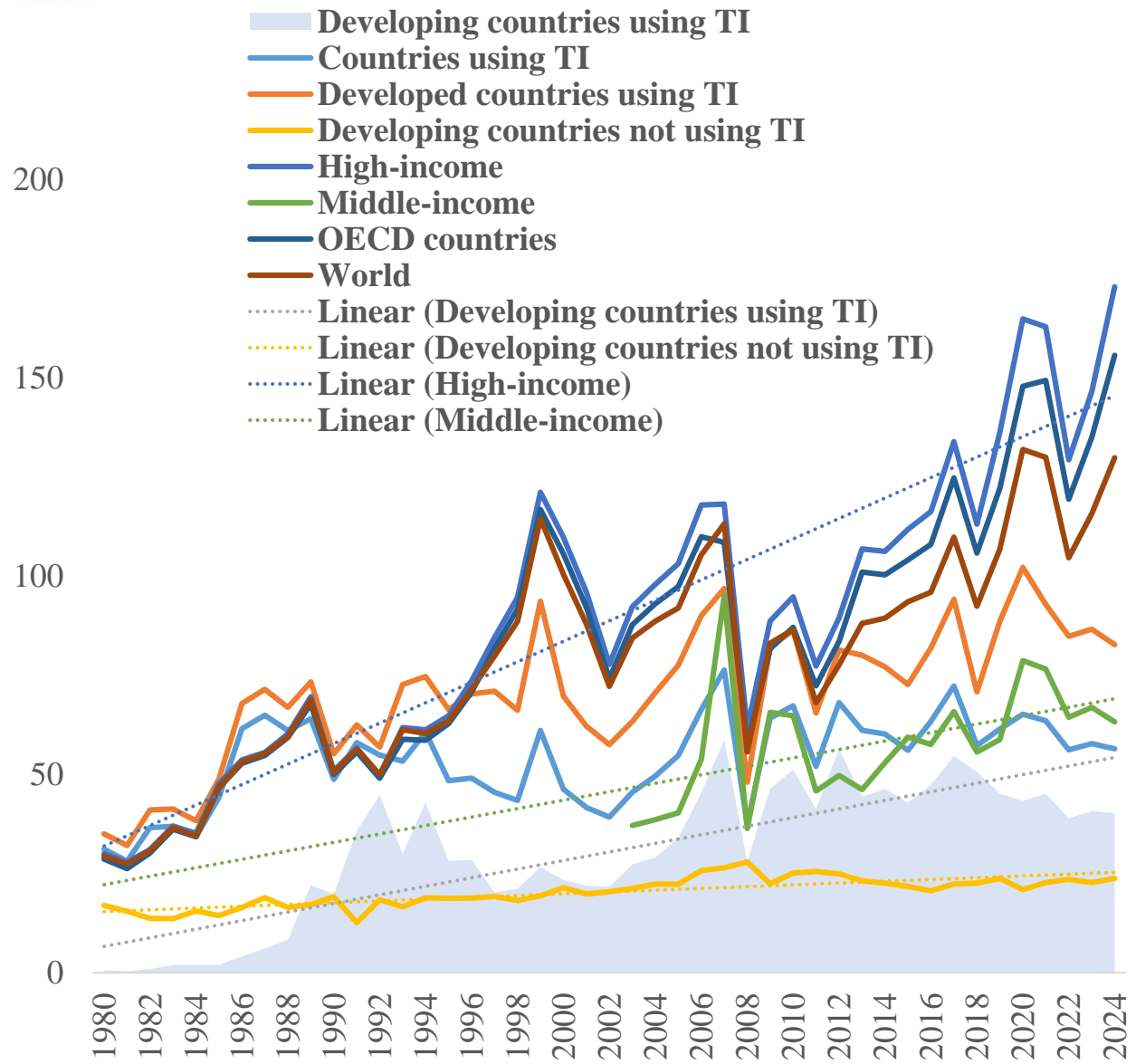
Mariam Voskanyan



■ After IT ■ Before IT

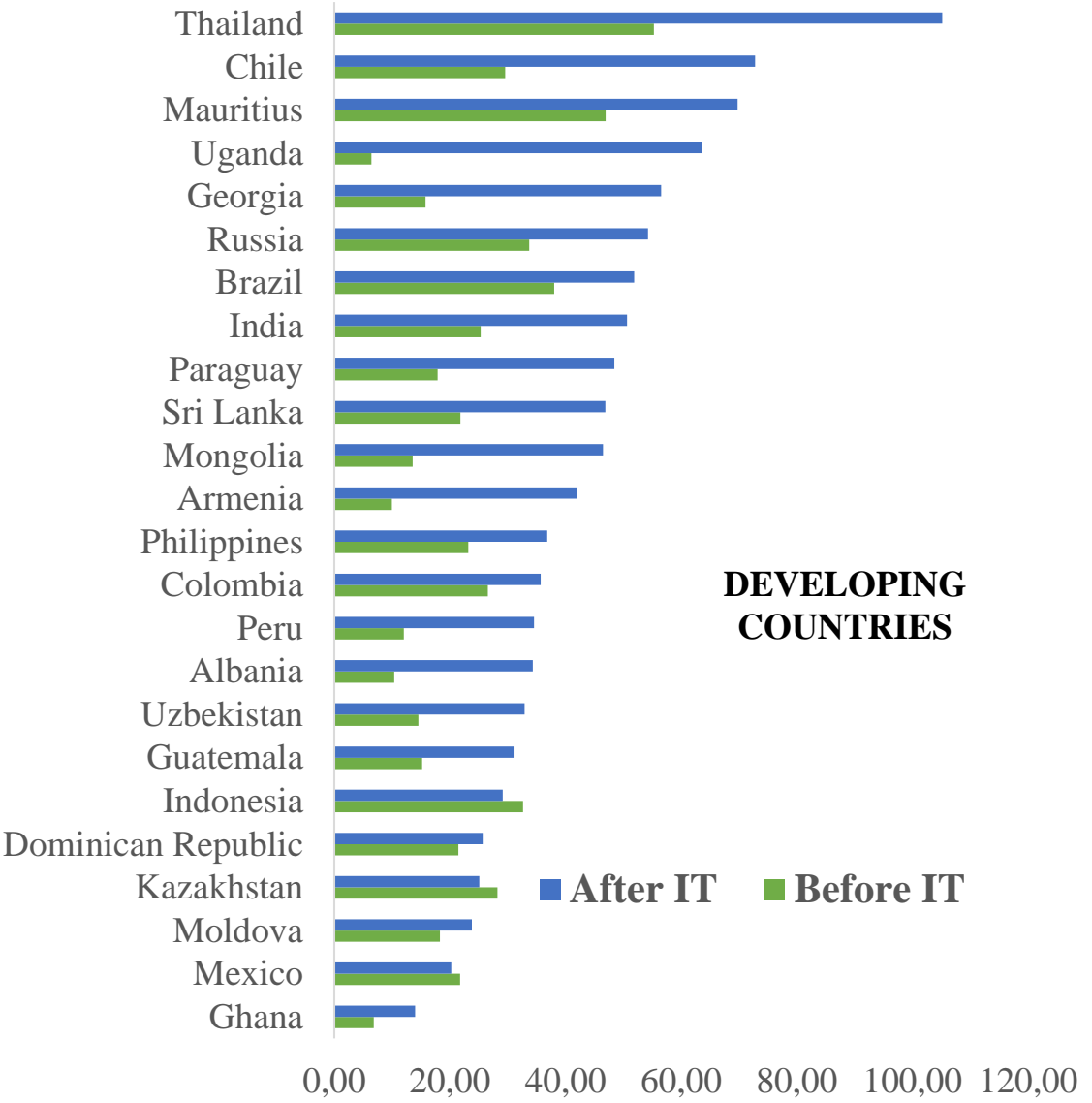
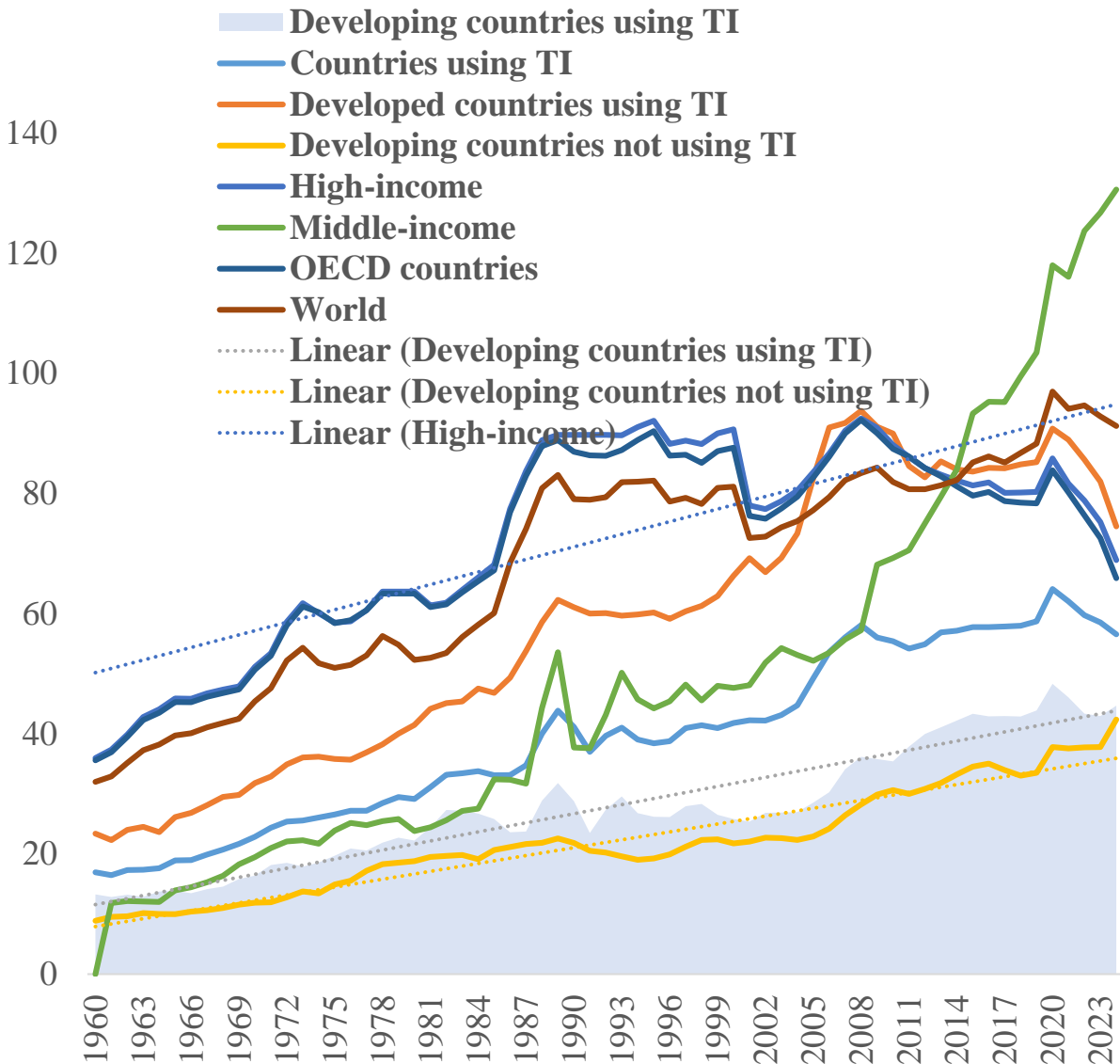


# Market capitalization of listed domestic companies (% of GDP)





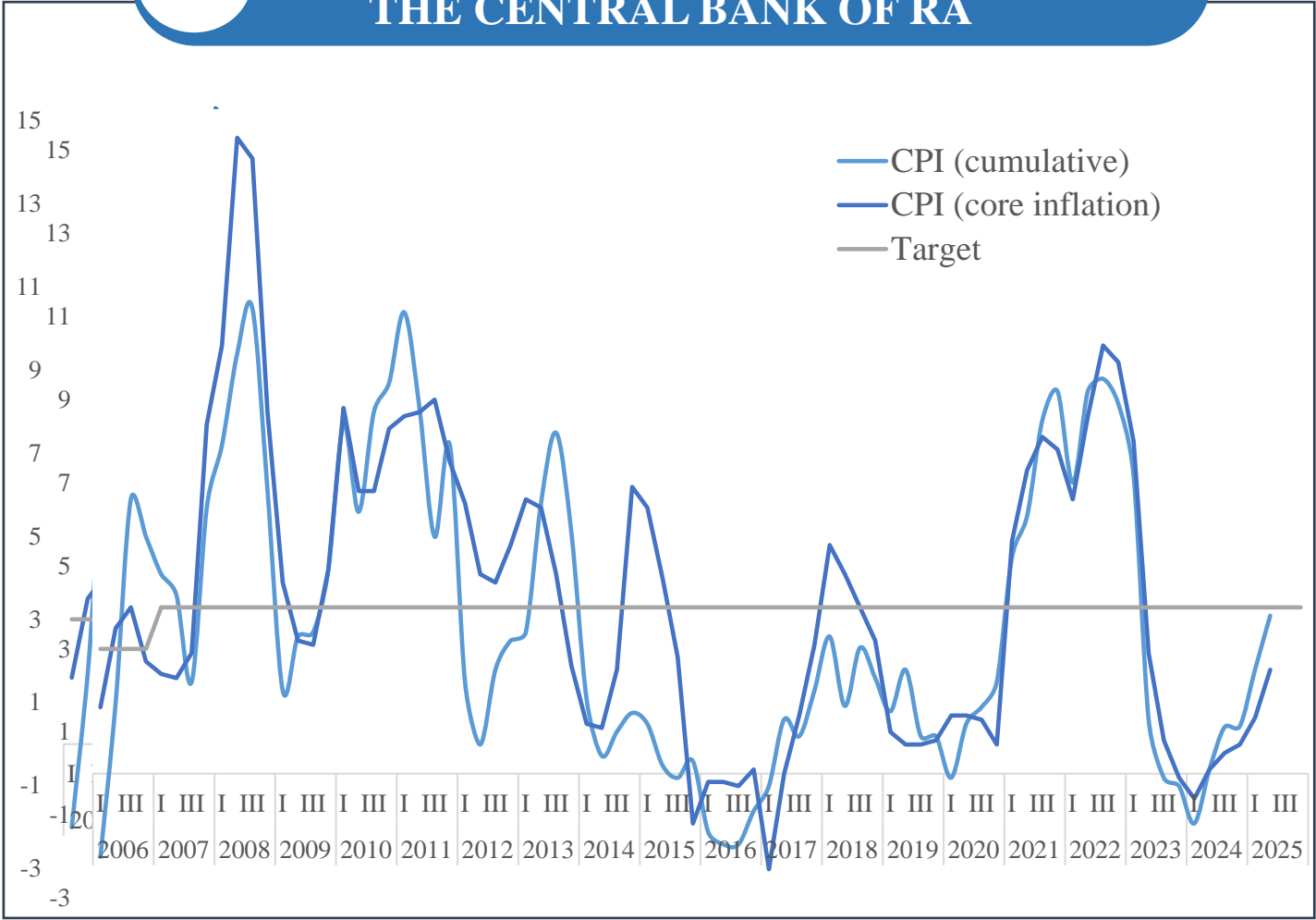
# Domestic credit to private sector by banks (% of GDP)



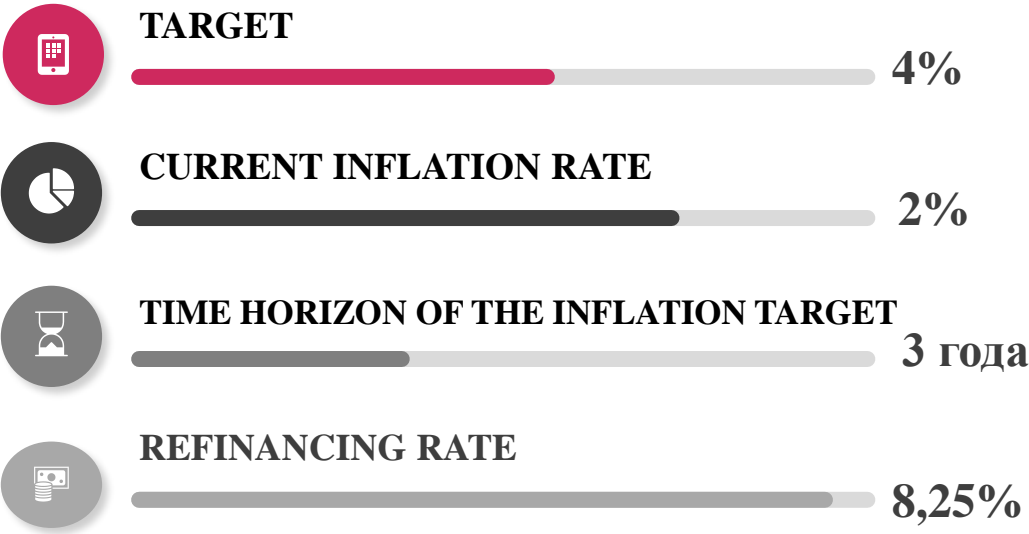


# MONETARY POLICY OF ARMENIA. KEY POINTS.

## INFLATION TARGETTING BY THE CENTRAL BANK OF RA



*Since 2006, the monetary policy of Armenia has been carried out within the framework of inflation targeting.*



Source: Database of the Central Bank of the Republic of Armenia – [www.cba.am](http://www.cba.am)

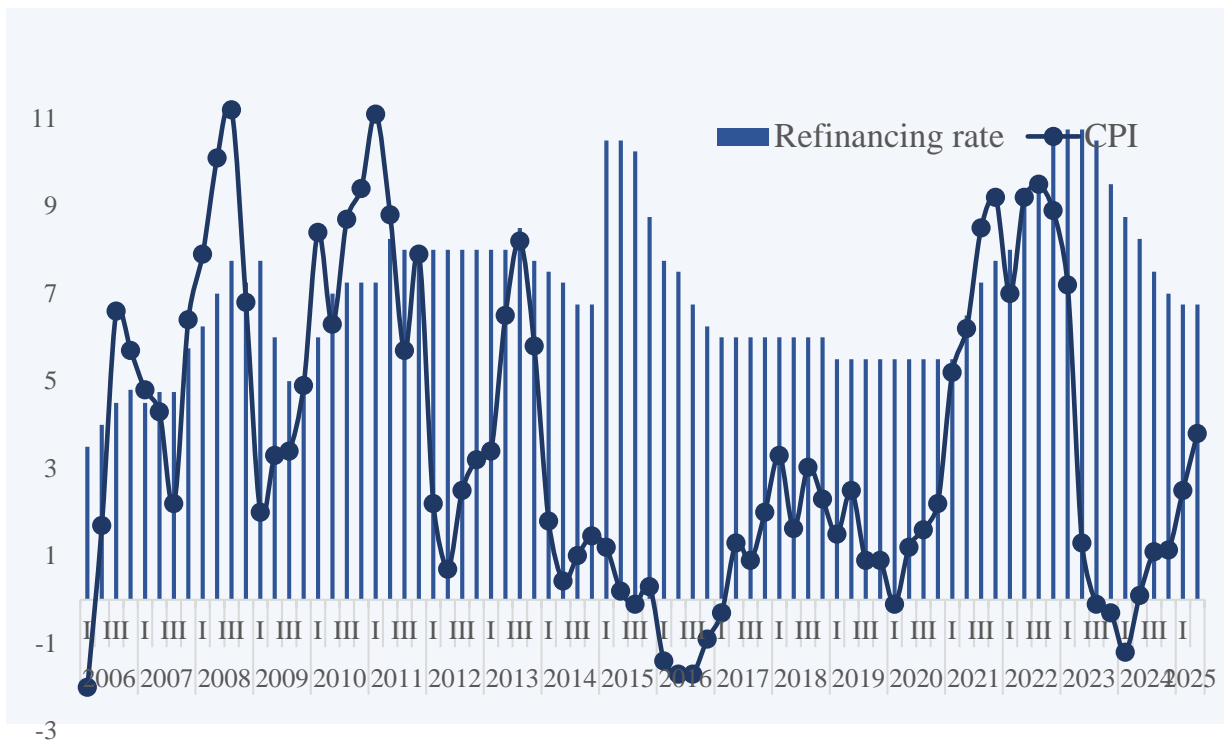




# MONETARY POLICY OF ARMENIA. KEY TOOLS.



## REFINANCING RATE AND CPI.

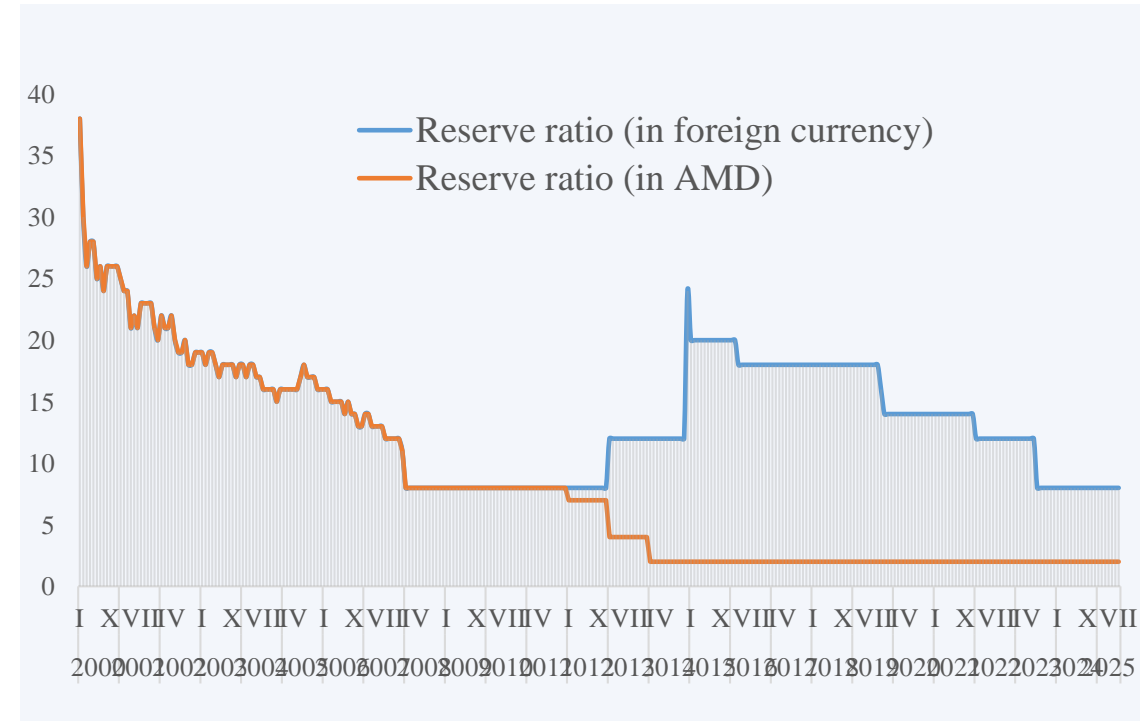


***The dynamics of key instruments of the Central Bank of Armenia indicate a tightening of monetary policy. Period 2021-2023 accompanied by a significant increase in the refinancing rate, which at the end of 2023 leads to deflation.***

Source: Database of the Central Bank of the Republic of Armenia – [www.cba.am](http://www.cba.am)



## RESERVATION RATE



***The money supply of Armenia, of all possible instruments of monetary regulation, is the most elastic to changes in the reserve rate.***

Source: Database of the National Statistical Service of the Republic of Armenia – [www.armstat.am](http://www.armstat.am)





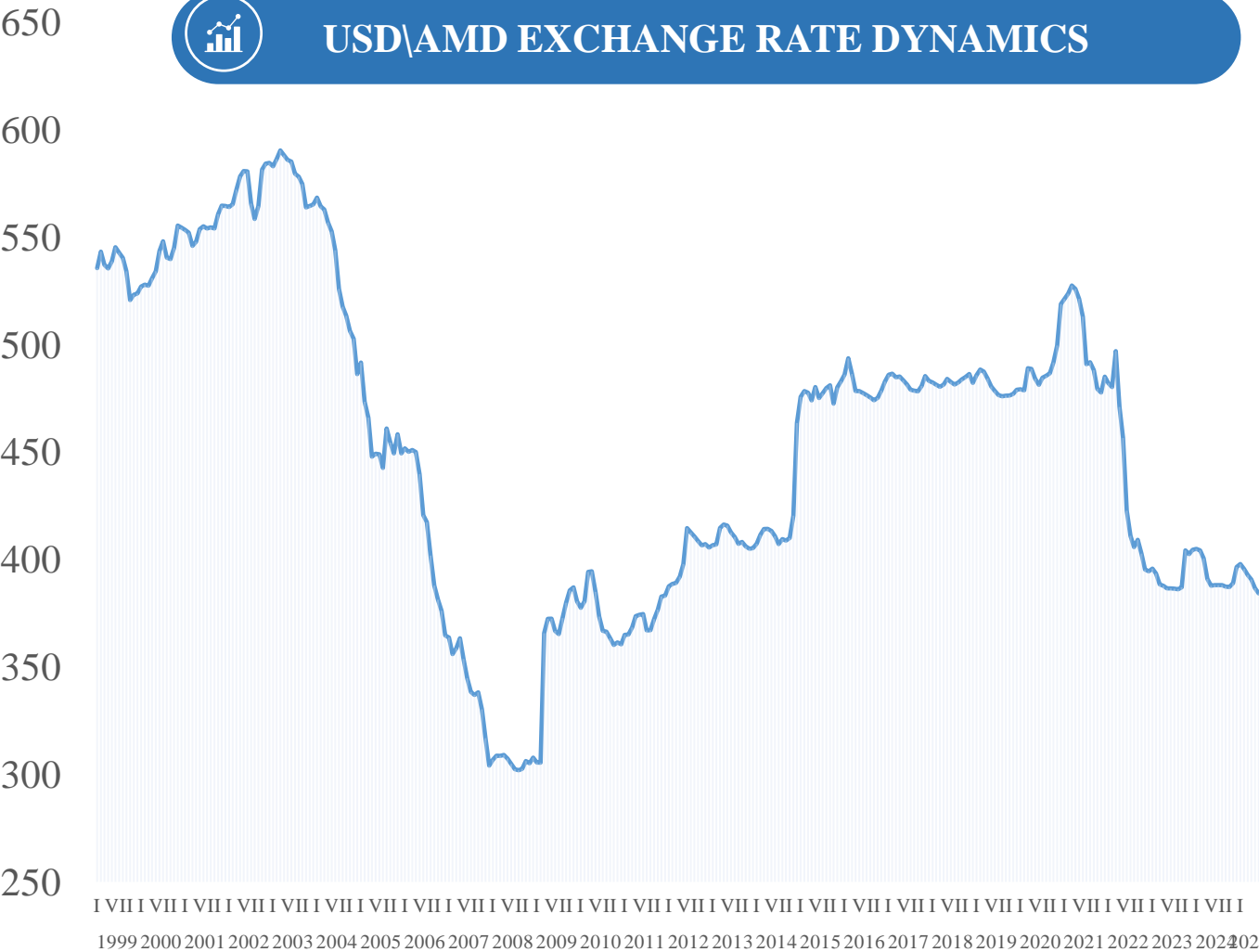




# CURRENCY POLICY OF ARMENIA. KEY POINTS.



## USD\AMD EXCHANGE RATE DYNAMICS



*Maintaining stability in the foreign exchange market in favor of strengthening the national currency remains a priority direction of Armenia's monetary policy.*



**CURRENCY REGULATION MODE OF THE CENTRAL BANK OF RA – ADJUSTED FLOATING RATE**



**PRIORITY OF THE CENTRAL BANK IN ENSURING STABILITY IN THE CURRENCY MARKET**



**STRONG CURRENCY REGULATION**



**FREQUENT CURRENCY CRISES**



Source: Database of the Central Bank of the Republic of Armenia – [www.cba.am](http://www.cba.am)





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