

The CBA Governor Martin Galstyan's opening speech at "30 Years of Armenian Dram: Reflecting on the Past and Navigating the New Digital Era" high-level symposium

Dilijan Training and Research Centre, September 2, 2023

Ladies and gentlemen,

It is my distinct privilege to welcome you all to "30 Years of Armenian Dram: Reflecting on the Past and Navigating the New Digital Era", a symposium hosted by the Central Bank of Armenia in collaboration with the Reinventing Bretton Woods Committee and the Union of Banks of Armenia.

This year marks the 30th anniversary of the Armenian dram—one of the most enduring and recognizable symbols of Armenian independence and statehood. As we celebrate the Dram's anniversary and reflect on the work that we have done to create a more prosperous and sustainable economic future for Armenia, we remain acutely aware of the many challenges facing our country, our region, and the world as a whole. This symposium is intended as a true meeting of the minds, that brings together like-minded leaders from around the world in central banking, government, academia, and more. Over the next two days, we will explore how the economic, geopolitical, and climate challenges we face are pushing us to fundamentally innovate how we conduct monetary, macroprudential, and fiscal policy. It is my hope that this symposium will provide a platform for us to together chart a shared vision for confronting these challenges and creating better foundations for more stable, sustainable, and equitable growth and prosperity in our countries and beyond.

I would like to begin my remarks by briefly tracing the path that has brought us here. As a small, developing, open market economy, situated in a historically precarious corner of the world, we in Armenia remain acutely aware of the fact that we cannot rely on sheer luck or inertia to maintain macroeconomic stability in our country. Risks always exist, some more dangerous than others, and many of them do materialize. The essence of good governance and good policymaking is the ability to weather any storm, to avoid what Olivier Blanchard calls "dark corners where danger lurks." The question is not whether we can avoid these risks altogether, but rather, whether we have a framework and system in place to effectively manage them. When making forward-looking policy, does our framework help us to mitigate, rather than aggravate, the risks and uncertainties that we face?

The period since the Covid crisis has shown that this issue isn't only relevant for emerging economies. If the Great Moderation had pushed policymakers in advanced economies to something of a state of inertia, the Covid crisis very quickly brought to the forefront the crucial role that monetary and fiscal policy and frameworks both play in ensuring long-term macroeconomic stability. When inflationary pressures began to emerge, the uncertainty about what was causing them created new communications and credibility challenges for central banks, problems that many thought had been put to bed in the 80s. In advanced economies, the post-Covid period has served as a difficult reminder that policy credibility cannot be taken for granted, that policy errors and uncertainty can create real welfare implications that ripple throughout the globe. At the same time, the linkage of fiscal policy in supporting monetary authorities in the fight against inflation became critical, particularly in the face of concerns over debt sustainability and related implications for long-term global interest rates.

In Armenia, the period since 2020 has been characterized by a complex layering of crises that forced us to act decisively and sufficiently aggressively in order to maintain macroeconomic and price stability. While we adequately dealt with these risks and helped avoid the “dark corners” of macroeconomic or price instability, this unforgiving succession of crises forced us to sit down and ask very fundamental questions about the nature of good policymaking and policy frameworks. Amid such high uncertainty, how could one develop a single interpretation of what was happening, and forecast that future with any degree of legitimacy? What type of communications would effectively convey the richness and complexity of our policy discussions, without minimizing the uncertainty we were facing or limiting our policy agility? What is monetary policy fundamentally about: serving as an expert forecaster of the most likely future, or most effectively managing the high degree of risk and uncertainty that is always at the core of policymaking? This line of thinking led us to develop FPAS Mark II: an evolution of existing, best-in-class monetary policymaking frameworks to better address what we believe to be the greatest policy imperative of our time: appropriately and systematically dealing with risk and uncertainty. I note that good frameworks aren’t just about processes and policies: robust frameworks that stand the test of time require serious investments in institutional capacity-building, most importantly in the standards we set for the people and teams that operate them. Our opening session tomorrow morning will provide an opportunity for us to discuss this idea in much more detail.

Looking more broadly at the broader Caucasus and Central Asia region, our continued susceptibility to frequent shocks and fluctuations, as well as the risks posed by the present situation, demand real investment and changes from all of us. This begins with the development of necessary institutional and human capital capacities and frameworks to confront both persistent and new challenges in the medium- and long-term. Moreover, the changing landscape blurs the lines between monetary policy, financial policy, and fiscal policy, requiring greater interlinkages and cooperation between these sectors. Factors like social welfare initiatives, climate change, and the digitization of currency are intertwining these policies in more complex ways.

These recent economic and geopolitical events also point to the potential implications of global fragmentation risks on the global financial system and, in particular, their effects on the development potential of emerging economies in our region. Of course, shifts toward de-globalization could create risks for global capital flows and create real challenges for access to international capital markets, with real consequences for the long-term growth potential of emerging market economies in the CCA and beyond. This also highlights the importance of coordinated monetary and fiscal policies to address the resulting consequences on the domestic economy and to mitigate unwarranted volatility. Here, the role of international institutions such as the IMF and others will be critical to ensure the integrity of the global financial system and to support the sustainable access of developing countries to capital markets.

Our ability to maintain regional resilience amidst these myriad challenges depends in no small part on the effectiveness of regional cooperation and continuous sharing of expertise and knowledge between central banks and financial authorities. As we reflect on drivers for a genuine Eurasian integration during this symposium, I would like to emphasize the important role that the IMF and, in particular, the CCAMTAC play in supporting this vision. CCAMTAC is quickly expanding into a hub for monetary, fiscal, and macroeconomic capacity-development, knowledge-development, and knowledge-sharing in the region, and we are especially grateful for the high level of cooperation between all of the member countries and the key role of the IMF.

In centering my discussion on risk and uncertainty, I do not want to send the message that all is doom and gloom in the world. Our responsibility to prudently manage new economic realities serves as an important inspiration for institutional development and capacity-building, not just at the CBA, but in the Republic of Armenia at large. Here, I would like to emphasize the incredible opportunities that digitization presents for sustainable, long-term growth in Armenia. The CBA, serving as an important conduit between the public and private sectors, has taken a lead role in building a digital society and economy in Armenia, built around a robust institutional framework following the very highest in international standards. The vision for a digital society and economy is built on complementary pillars of a comprehensive national electronic identification platform, a resilient cybersecurity layer, linked by robust data interoperability and best-in-class governance standards. We have also initiated a review of the state of our payment infrastructure, with the goal of future-proofing our payment system, making it more robust, more resilient and more integrated to meet the needs of the citizens of Armenia.

At the same time, we continue to remain aware of the risks posed by digitization, including the speed and size of transactions in the digital economy, which may represent future threats to financial stability. Further risks stemming from the proliferation of crypto assets and unlicensed banks posing as exchanges remain on our radar. The idea of the digital dram also remains a frequent topic of public discussion, and here, we emphasize the need to develop a solid infrastructure and comprehensive understanding of this currency in order to promote its effective circulation.

I would like to conclude my remarks with this message: as policymakers, we stand today at perhaps one of the most crucial junctures in recent history. The experience of the past three years has made readily apparent the significance of the economic, geopolitical, and climate challenges that we face in terms of the wellbeing of our constituents and of our countries. It is my hope that this symposium will invigorate all of us to approach this new era with a degree of vigor and excitement. Investing in institutional development and capacity-building, developing more robust and useful policymaking frameworks, and becoming better managers of risk and uncertainty will support us to not only make better policy decisions that support better price and financial stability in our countries, but also, and more importantly, serve to improve welfare outcomes for our constituents on the journey to sustainable and robust long-term growth and economic development.

Thank you.