Policy-Making Cycle and Policy-Relevant Analysis

Susanna Grigoryan

Recent Staff Member, Monetary Policy Department, Central Bank of Armenia

Student, Global Forecasting School

November 2025

Hello everyone, I'm **Susanna Grigoryan**, an economist at the **Central Bank of Armenia** and a **Level One student at the Global Forecasting School**. Welcome back to the CBA Academy Learning Hub. In this session, we'll explore how FPAS Mark II reshaped the policy-making cycle and redefined what we mean by policy-relevant analysis.

The Prudent Risk Management Approach to Price Stability, also referred to as FPAS Mark II, represents a paradigm shift in how the Central Bank of Armenia conducts monetary policy. This approach recognizes that uncertainty is not an inconvenience to be minimized, but the natural state of the world that policymaking must internalize. As the manual puts it, we are no longer in a world where forecasting is an act of prediction; it is an act of disciplined learning under uncertainty. This principle forms the foundation for both the 29-day policy cycle and the concept of policy-relevant analysis.

FPAS Mark II replaces the event-driven style of policymaking with a structured twenty-nine-day cycle designed to embed discipline, coordination, and continuous reflection into the decision-making process. Each stage of the cycle links analytical work directly to policy judgment. According to the CBA Academy's onboarding framework, the twenty-nine-day policy cycle defines the rhythm of decision-making, assigning clear responsibilities to each stage of preparation. The rhythm of the policy cycle must be predictable, but the conversation within each round must remain dynamic. Regularity builds credibility; dynamism sustains learning. This design ensures that analytical and decision-making processes operate as one continuous loop. Learning is not postponed to post-mortems; it happens within the cycle itself.

During the first ten days, staff focus on diagnostics and data updates — reviewing new data, updating short-term projections, and assessing financial and external conditions. Between days eleven and twenty, attention turns to scenario development and testing. Staff refine alternative scenarios under the three-R principle: related, relevant, and realistic. The final stage, days twenty-one through twenty-nine, is dedicated to policy preparation and decision. During this period, staff draft the Executive Briefing, hold the Board seminar, and finalize the decision and communication. Each step builds on the last, making policy not a series of isolated events but a living, continuous process of disciplined learning.

Traditional FPAS Mark I systems centered on deterministic baselines. While this provided structure, it fostered what Douglas Laxton calls "the folly in baselines" — the illusion that there exists a single, correct forecast path. The Prudent Risk Management manual warns that overconfidence in a single baseline can institutionalize error. FPAS Mark II dismantles this mindset by embedding uncertainty directly into the analytical workflow. It requires staff to present multiple scenarios — not to confuse decision-makers, but to clarify risks. Each scenario represents a different version of reality, conditioned on alternative assumptions about shocks, transmission, and expectations formation. Policy must be judged not by how well the baseline turns out, but by how prudently the institution managed the distribution of risks around it.

This statement captures the essence of the least-regrets mindset. Policy is not an optimization exercise but a risk management act designed to avoid costly mistakes when the world behaves differently than expected.

Under FPAS Mark II, staff are instructed to focus their effort on producing policy-relevant analysis, not perfect forecasts. This approach bridges the gap between quantitative modeling and qualitative judgment. The manual defines policy-relevant analysis as the translation of analytical results into information that alters the Board's understanding of risks and informs their choice under uncertainty. This means that good analysis integrates model outputs and expert judgment into coherent risk narratives. It quantifies uncertainty explicitly, often through fan charts, density forecasts, or scenario trees. And it prepares communication materials that help both the Board and the public understand not what the Bank expects, but what it fears and what it hopes for.

In the onboarding materials, the Central Bank highlights that policy-relevant analysis informs risk-based decisions by designing analysis around questions of credibility, trade-offs, and uncertainty.

The twenty-nine-day policy cycle also strengthens collaboration between staff and the Board. The staff's role is not to defend a single baseline but to act as facilitators of structured dialogue. Board members, meanwhile, become decision-makers under uncertainty, guided by least-regrets reasoning. The manual articulates this cultural shift clearly: staff exist not to convince the Board but to prepare the Board for disciplined disagreement.

Each meeting within the cycle — from internal workshops to Board seminars — functions as a platform for this constructive tension. Disagreement is expected and valued when it sharpens collective understanding of risks. The final output of each round — the Executive Briefing — reflects this duality: clarity of evidence and humility of judgment. As the manual notes, the briefing document is not a forecast; it is a framework for decision-making under uncertainty.

FPAS Mark II transforms the central bank into a learning institution. Each policy cycle ends with reflection, as teams review forecast performance, evaluate communication effectiveness, and identify lessons for the next round. This feedback loop operationalizes what the manual calls institutional learning under uncertainty. Credibility is not achieved by avoiding mistakes, but by demonstrating the capacity to learn from them faster than others. The Central Bank's internal structure — with its rotation of staff, training routines, and post-round reviews — institutionalizes this process. Learning becomes a permanent feature of policymaking rather than an afterthought.

The shift to the twenty-nine-day policy cycle and the emphasis on policy-relevant analysis have profound implications for monetary policy at the CBA. The structured cycle ensures predictability and rhythm, guaranteeing timely preparation and continuous engagement between staff and the Board, which strengthens credibility. By distinguishing analysis from judgment, the institution achieves greater transparency and accountability. Continuous learning ensures resilience and adaptability, allowing the institution to respond flexibly to shocks without losing its anchor. The FPAS Mark II framework also treats staff training and skill rotation as part of the policy process itself, not as a separate human resources function. And finally, decision-making becomes less about precision and more about balance — weighing risks across possible futures.

As summarized in the manual, the future cannot be forecast, but it can be managed. The discipline of the policy cycle and the humility of least-regrets thinking together make credibility sustainable.

Thank you for watching, and I would like to acknowledge **Douglas Laxton, Martin Galstyan, Vahe Avagyan, Jared Laxton, Asya Kostanyan, and Sophio Mkervalidze** at the **Global Forecasting School** and **The Better Policy Project** for their guidance and support in producing this video.

CENTRAL BANK
OF ARMENIA

THE BETTER POLICY PROJECT
GREAT THINGS ARE COMING

Literature & Further Reading

- Dincer, N., & Eichengreen, B. (2014). “Central Bank Transparency and Independence: Updates and New Measures.”

  https://www.ijcb.org/journal/ijcb14q1a6.htm

- Laxton, D., M. Galstyan, and V. Avagyan (eds.) (2023). *The Prudent Risk Management Approach to Price Stability.* Better Policy Project (Unpublished mimeograph). https://www.thebetterpolicyproject.org/_files/ugd/bf672a_44316592afd24e26add8648beeb507a2.pdf

- Freedman, C., & Laxton, D. (2009). “Why Inflation Targeting?” IMF Working Paper 09/86. https://www.imf.org/external/pubs/ft/wp/2009/wp0986.pdf

- Debelle, G., & Laxton, D. (1996). “Is the Phillips Curve Really a Curve? Some Evidence for Australia.” IMF Working Paper 96/37.

  https://www.imf.org/en/publications/wp/issues/2016/12/30/is-the-phillips-curve-really-a-curve-some-evidence-for-canada-the-united-kingdom-and-the-2079