The “CBA Bulletin” monthly of the Central Bank of Armenia has a section Monetary Overview which contains the CBA January 20, 2010 Board Meeting’s Minutes on the refinancing rate for December of 2009, and information on monetary, external, fiscal and real sectors, and data on payment and settlement system and the main financial system ratios.

The source of information on real sector (excluding core inflation) and external trade is the National Statistics Service of Armenia (http://www.armstat.am). The source of information on fiscal, external sectors (excluding external trade), monetary and financial statistics, core inflation and payment and settlement system is the Central Bank of Armenia. The monetary and financial statistics includes information on monetary indicators and the main financial market and financial system ratios.

Monetary indicators have been prepared based on the CBA’s Monetary and Financial Statistics of the Republic of Armenia Manual which is available on the CBA website in the section Statistics. The monetary indicators and Armenia’s international reserves have been computed on an accrual basis.

The information on monetary indicators and Armenia’s international reserves is subject to adjustment per quarter and per annum in order for the closing entries of the CBA operations to be included in these indicators. The quarterly data and the annual data shall be adjusted (treated as final) two months after the end of the reporting quarter and three months after the end of the reporting year, respectively.

The timetable for publication of statistical data is available on the CBA website in the section Statistics.

For questions and suggestions please contact:
The Statistics Department
Telephone: (374 10) 592-562
Facsimile: (374 10) 583-631
E-mail: sd.mpd@cba.am

The Monetary Overview and other CBA publications are available at the CBA website:
http://www.CBA.am

# BOARD OF CBA MINUTES (20.01.2010)

## Refinancing Rate for January of 2010

**The January 20, 2010 CBA Board Meeting attended by: Chairman A. Javadyan, Deputy Chairman V. Gabrielyan, and Board Members A. Saribekyan, A. Chilingaryan and V. Abrahamyan.**

The Board Meeting opened with presentation of the situation report. The report contained new information based on which estimations were given with regard to inflation, external environment as well as current developments in real and monetary sectors. Overall, these developments were in line with the recent CBA forecasts. In the current period, high inflationary pressures coming from the external sector persisted, which was determined by trends of growth of international prices of raw materials and certain food products. These developments, coupled with the stabilizing real GDP level, have contributed to the persistence of domestic inflationary environment.

There was 2.0 percent inflation recorded in December 2009, whereas the 12-month inflation indicator has reached 6.5 percent, outstripping the inflation target by about 1.0 pp. The Board stated that price increase has been recorded in respect of all commodity groups of consumer basket. Namely, food prices grew by 3.4 percent (with 1.8.3 pp contribution to inflation), non-food prices, by 1.0 percent (with 0.16 pp contribution to inflation), and service tariffs, by 0.2 percent (with 0.06 pp contribution to inflation). Interestingly, inflation recorded in December has been primarily due to a seasonality component and thus determined by price increases in the following items: “Fruit”, by 21.3 percent (with 0.6 pp contribution to inflation) and “Vegetable and Potato”, by 26.1 percent (with 1.2 pp contribution to inflation). The seasonality component was perhaps more prominent in December: contribution of increased prices of tomato, cucumber, green pepper and eggplant alone to headline inflation has been nearly 1.4 pp. This has been largely due to inflation indicator, which had been within the target band from the beginning of the year up to November but which stepped beyond the band in the end of the year. Some price increases were observed with regard to egg and such items as “Fats and Oils”, “Meat Products”, “Fish” as well as medical service tariffs. December saw some deflation with regard to bread and potato prices.

Following the presentation of the situation report, the Board started discussion over the developments in external and domestic environments as well as the monetary policy directions. Excessively expansionary monetary and fiscal policies implemented in the course of 2009, coupled with coordinated efforts to trigger economic activity and achieve price stability, have contributed to certain improvement of the macroeconomic environment. As part of anti-crisis measures jointly implemented by the CBA and the Government, growth of lending accelerated in the fourth quarter of 2009 owing to loan funds provided to the economy through the mediation of the banking sector. As such, dram loans reported relatively faster growth over foreign currency loans. Economic slowdown has decelerated: in the period January-December 16 percent economic decline has been recorded in relation to 17.5 percent decline in January-October. Almost all sectors of the economy reported deceleration in slowdown. An exception is construction where the slowdown went further. Growth was recorded in services only.

At the same time, almost all industrialized countries of the world reported more-than-expected economic growth in the third quarter as compared with the previous quarter. Persisting increase in international prices of raw materials and some food products points to the continued trends of recovery of the world economy. In the start of 2010 many countries have outlined the need to tighten monetary and fiscal policies by implementing ‘exit strategies’.

The Board also discussed the developments in the Armenian financial market. In the current period the dollarization of the economy kept on accelerating, reflecting persisting high growth rates of FX deposits and FX loans. The dollarization thus has resulted in certain rise of interest rates in dram markets. In government securities market in particular, the average level of interest rates has grown by about 0.6 pp in comparison with the previous month’s indicator; so interest rate of 1-year papers reached 8.9 percent and that of 3-5-year papers reached 12.7 - 13.8 percent. Interbank repo interest rate made up 5 percent on average compared with 4.6 percent in the previous month.

The Board asserted that under trends of recovering world economy, inflationary pressures coming from the external sector have notably intensified in the current period due to faster than expected increase of international prices of raw materials and basic foodstuff. In the meantime, with the domestic economic activity and aggregate demand gradually recovering, extra inflationary pressures have come about.

In view of continued trends with inflation as well as expectations for the recovery of economic activity, the Board estimates that high inflationary environment will persist in the forecast time horizon as well. In such a situation, the gradual tightening of monetary policy is important. Also, anticipated rise in natural gas and water tariffs in 2010 will bring in extra inflationary pressures.

In the outcome, the Board decided to raise the Central Bank Refinancing Rate to 5.5 percent. Deposit Facility and Lombard Facility Rates were set at 2.5 percent and 8.5 percent, respectively.