

BOARD MEETING OF THE CBA

MINUTES

(02.11.2021)

On the Refinancing Rate

The CBA Board Meeting of November 2, 2021 attended by Governor M. Galstyan, Deputy Governors N. Yeritsyan and V. Abrahamyan, and Board Members A. Stepanyan, H. Ghahramanyan, H. Khachatryan, D. Nahapetyan, A. Manukyan

The Board meeting opened with a report of the situation as of November 2. It addressed the developments on inflation, external environment, and real, fiscal, financial and monetary sectors of the economy.

The Board stated that deflation of 0.1% was registered in September 2021, against 0.2% deflation in the same month of the previous year, **with the 12-month inflation remaining unchanged totaling 8.9% at the end of the month.** The month's inflation was mainly caused by 0.54% drop in prices of "Food and non-alcoholic beverages" item, within the structure of which a significant decline was observed in the prices of fruits and vegetables, 5.2% in total. In September, prices for non-food products grew by 0.71%, while prices for services decreased by 0.05%. During the month, **the 12-month core inflation** continued to demonstrate stable dynamics, remaining at the level of 8.0%.

Current developments in the external sector were presented, according to which restoration of economic activity and gross demand in the main partner countries of the Republic of Armenia continues in line with the forecasts of the Central Bank. This is happening amid a fairly high rate of spread of the new type of coronavirus, the negative impact of which on the economy is mainly offset by the active vaccination and the avoidance of severe restrictions to a possible extent. At the same time it was noted that in parallel with the rapid recovery of world demand, due to a number of supply factors a significant expansion of the inflationary environment is observed in the international commodity markets. In particular, expectations of limited supply in the international oil market and in certain groups of food products contribute to the maintenance of high levels of prices for these products and the emergence of certain inflationary trends. In such circumstances, partner countries of Armenia observe inflationary developments which are higher than expected, and the Central Banks

have to outline or implement a tightening policy of monetary conditions with the view to ensuring price stability.

The Board discussed the developments in the Armenian economy and noted that current trends indicate weaker activity than forecast, mainly caused by the decline in the agricultural sector output. In addition, according to the Central Bank estimation, current progression of the pandemic, amid slow vaccination rates, will have some restraining effect on the service sector and private consumption by the end of the year. Nevertheless, positive developments in domestic demand are still ongoing, mainly due to the high growth in private consumption as a result of declining private savings and the augmented foreign remittances. At the same time, according to current estimates, in line with expectations, the fiscal impulse in 2021 will have a certain restraining effect. However, by the end of the year, some of the expenditures saved in the previous period are expected to be executed, as a result of which the restraining effect will be somewhat mitigated. It was also noted that the Law on the State Budget of the Republic of Armenia for 2022 envisages large-scale capital expenditures, in case of the full implementation of which the fiscal impulse in 2022 will be less restraining than the previous assessment of the Central Bank. It was also noted that, despite the growth of private consumption, growth rates of imports remain subdued, and the progressive growth of exports and large volumes of remittances from abroad continue to contribute to the improvement of the current account.

The Board discussed developments in the financial market of Armenia and noted that in the reporting period, short-term market interest rates were shaped around the Central Bank policy interest rate. It was noted that changes in the refinancing rate had a sufficient impact on other sectors of financial market, in particular, the yield on government bonds, lending and deposit interest rates.

The Board addressed the issues of the existing inflationary trends and inflationary expectations. It was noted that the smaller decrease of seasonal food prices in recent months compared to previous years, significantly contributed to the development of an inflationary environment, the impact of which on inflation will soon be neutralized. At the same time, the inflationary environment continues to be driven by outpacing growth of private consumption over the expansion of output capacities. It was also noted that, according to a survey conducted by the Central Bank, the factor of uncertainty about the future course of inflation has somewhat decreased due to the increase in the share of those expecting low inflation, which indicates that public inflation expectations show signs of stabilization.

Following a discussion of the Situation Report and external and domestic macroeconomic developments, the Board proceeded to reviewing the monetary policy directions and making decision on the policy interest rate. ***The board was presented to review the option of leaving the refinancing rate unchanged by the Forecasting Team, taking into account inflationary effects still persisting in foreign economies and the Republic of Armenia on the one hand, and current and expected effects of the recent tightening of monetary conditions at a relatively large step. Subsequently, the Board unanimously resolved to accept the proposal and leave the policy interest rate unchanged.*** In doing so, the Board reaffirmed the sufficient impact of the forward-looking and consistent policy since the end of last year to regulate the advanced demand, curb inflation and safeguard the targeted level of inflation in the medium term. Under such circumstances, the 12-month inflation is projected to remain high until the end of the year, and then to approach the 4% target in 2022 and stabilize around it in the medium term.

The CBA Board assessed that the risks of inflation deviation from the projected medium-term trend amid the still uncertain economic prospects are balanced and should they materialize, the Board will stand ready to respond accordingly in fulfilment of the price stability objective.

The Board approved the decision on interest rates of monetary instruments of the Central Bank and the proposed press release, which are attached hereto.

The Central Bank of the Republic of Armenia

**Board Decision
November 02, 2021, No 160 L**

On Setting Interest Rates of the Republic of Armenia Central Bank Monetary policy instruments

By virtue of Article 2(3), Article 20 “c” and “e” of the Republic of Armenia law “On the Central Bank of the Republic of Armenia”, and provisions of the Republic of Armenia law “On Normative Legal Acts”, the Board of the Republic of Armenia Central Bank, herewith enacts:

1. Set the refinancing rate of the Central Bank of the Republic of Armenia at 7.25%.
2. Set the lombard repo facility rate offered by the Central Bank of the Republic of Armenia at 8.75%.
3. Set the deposit facility rate offered by the Central Bank of the Republic of Armenia at 5.75%.
4. This decision shall enter into force on the day following the day of its publication on the website of the Central Bank of the Republic of Armenia.

***Martin Galstyan,
Governor of the Central Bank***

***September 02, 2021
c. Yerevan***

PRESS RELEASE
02.11.2021

At the November 2, 2021 meeting, the Board of the Central Bank of Armenia decided to leave the refinancing rate unchanged, at 7.25%.

Inflation in September 2021 stood at -0.1%, compared to -0.2% inflation in the same month of the previous year. As a result, 12-month inflation remained unchanged at 8.9%. In September 12-month core inflation remained stable at 8.0%.

Despite the rapid spread of the new type of coronavirus worldwide, recovery of economic activity and aggregate demand continues in the main partner countries of Armenia, due to the rapid vaccination rollout and the effort to avoid strict healthcare measures. Positive demand developments, in the environment of constrained supply conditions, caused significant inflationary pressures in the international commodity and food markets, which is also reflected in accelerating inflation in partner countries. Under these conditions, inflationary pressures on the Armenian economy from the external sector remain.

Current developments in the Armenian economy point to somewhat weaker than expected economic activity, primarily due to the decline in the agricultural sector and the expected slowdown in the services sector caused by the new wave of the pandemic. Nevertheless, demand continues its recovery, primarily due to private consumption, on the back of large inflow of remittances and declining private savings rate. The CBA Board judges that the outpacing growth of private consumption over the expansion of production capacities continues to contribute to the domestic inflationary environment. At the same time, public's inflation expectations tend to show signs of stabilization.

Despite the persisting inflationary environment in the external sector and in the Armenian economy, the CBA Board assesses that the forward-looking and consistent tightening of monetary conditions since the end of last year is having sufficient impact to control the outpacing demand, contain the inflation and ensure fulfillment of the target in the medium term. The Board, therefore, judges appropriate to leave the refinancing rate unchanged. The 12-month inflation is projected to remain high until the end of the year, and then to approach the 4% target in 2022 stabilizing around it in the medium term.

The Board assesses that the risks of inflation deviating from the projected medium term path are balanced, and should they materialize,

the Board will stand ready to respond accordingly in fulfilment of the price stability objective.

Detailed information about setting the interest rate level will be available in Press Release (Minutes on Interest Rate) to be published by November 16, 2021.

CBA Public Relations Service