

PRESS RELEASE

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Refinancing rate raised by 0.25 percentage point - 5.5%

At the February 2, 2021 meeting, the Board of the Central Bank of Armenia decided to raise the refinancing rate by 0.25 pp, setting it at 5.5%.

Inflation in December 2020 amounted to 3.4%, mainly due to the rise in prices of imported food products, in which case the 12-month inflation has increased significantly and nearly approached the target level, reaching 3.7% at the end of the year. In December, the 12-month core inflation also increased, making up 3.6% at the end of the month.

Early in 2021, in line with the scenario outlined in the monetary policy program of the CBA, signs of reviving economic activity and demand recovery are observed in the United States and Russia, among the key partner countries to Armenia. While trends in the Eurozone are slower than anticipated due to the restrictions imposed under the spreading pandemic. At the same time, driven by expectations of global demand recovery and influenced by a number of supply factors, inflationary developments continue to persist in the global commodity and food markets, which is also reflected in the higher-than-expected inflationary environment in key partner countries. Under such circumstances, the CBA Board estimates that mostly inflationary impact on the Armenian economy from the external sector is persisting.

Economic activity in the fourth quarter proved lower than expected in the context of the announced martial law in Armenia, the spread of coronavirus pandemic and high uncertainty over the economic growth outlooks. The economic downturn was largely due to the decline in the services sector, reflecting also weak demand. The projected slowdown in lending to the economy is predicted to have an additional negative impact on domestic demand. Along with these developments, in recent months there has been some improvement in the country's risk premium estimates in the international financial markets. Nonetheless, the Board is of the opinion that, in the current situation, it is important to implement potential growth-enhancing structural reforms, including through the adoption of an appropriate fiscal spending strategy.

Despite a sluggish demand and primarily a supply-side driven inflation, there is some acceleration in inflation expectations as a result of the latter, and the CBA Board therefore considers it appropriate to increase the refinancing rate. The Board will also stay committed in taking appropriate actions to neutralize any risks of inflation expectations destabilization. Under such conditions, inflation in the forecast horizon will be around the 4% target.

The CBA Board finds that the risks of inflation deviating from mid-term projection path amid high uncertainty over economic outlooks are balanced, and should they emerge, the Central Bank stands ready to react accordingly, in fulfillment of the goal of price stability.

Detailed information that underlies the decision on setting of the interest rate will be available in Press Release (Minutes on Interest Rate) to be published by February 16, 2021.

In case of using the Press Release, the reference to the original source is mandatory.

CBA Public Relations Service

Tel/Fax: (374-10) 56 37 61

E-mail: mcba@cba.am

www.cba.am