

## **PRESS RELEASE**

**16.03.2021**

At the March 16, 2021 meeting, the Board of the Central Bank of Armenia decided to leave the refinancing rate unchanged, on a 5.5% level.

In February of 2021, inflation stood at 0.6% compared to 0.2% deflation recorded in the same month of the previous year, in which case the 12-month inflation and core inflation have increased to 5.3% and 5.5%, respectively, at the end of the month, mainly due to the effects transmitted from international commodity markets and the dram depreciation.

The economic activity and demand recovery trends continue in the main partner countries to Armenia during the first quarter of 2021, and this is expected to persist in the mid-term horizon, mostly fueled by the implementation of expansionary monetary and fiscal policies in those countries. Positive expectations about recovery of global demand, as well as a number of supply factors, continue to drive the price increases in the international food and commodity markets. This also contributes to a higher-than-expected inflationary environment in the partner economies. In such a situation, the Board of the Central Bank of Armenia still anticipates an inflationary impact on the Armenian economy from the external sector.

The economic downturn in Armenia in the fourth quarter of 2020 somewhat exceeded the forecasts presented in the previous monetary policy program, mainly due to reduced activity in services and agriculture sectors. In the first quarter of 2021, the economic activity remains sluggish, which is still mainly caused by the decline in services sector, reflecting the impact of persistent weak demand and low private consumption. Notwithstanding the small expansionary fiscal policy, domestic demand is expected to remain somewhat subdued in the near-term future amid existing uncertainty and slowdown in the lending growth. Under such conditions, the Board of the CBA is not anticipating inflationary effects from the domestic economy.

Back in December, forecasting some acceleration of inflation and inflation expectations due to supply factors, the Board of the CBA substantially tightened the monetary conditions. Taking the above into account and given the persisting environment of weak demand, the Board of the CBA finds it reasonable to leave the current policy rate unchanged. The Board agrees that in the near future as well, the monetary policy will target the neutralization of any risks of acceleration in inflation expectations, while trying to minimize the possible negative impact on the domestic demand recovery. As a result, after a certain acceleration in the near future, the 12-month inflation is projected to decrease and stabilize around the 4% target in the forecast horizon.

The Board of the CBA reckons that, under high uncertainty over the economic outlook, the risks of inflation deviating from the mid-term projection path are balanced; if such risks materialize, the Central Bank stands ready to react accordingly, in fulfilment of the objective of price stability.

**Detailed information underlying the decision on the level of interest rate is available in Inflation Report (Monetary Policy Program for the first quarter of 2021) to be published by March 30, 2021.**