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CENTRAL BANK OF ARMENIA

INDIRECT INSTRUMENTS OF THE MONETARY POLICY AND MECHANISMS OF USE

Introduction

Maintaining price stability is the primary objective of the Central Bank of the Republic of Armenia (hereinafter referred to as the “Central Bank”), in accordance with the Republic of Armenia Law on the Central Bank. In pursuing its primary objective, the Central Bank formulates, approves and implements monetary policy which is best accomplished when the market participants and the general public understand the program objectives and how to achieve them, and when there is ground to avoid overlaps.

General Principles of the Monetary Policy

In order to achieve its objective, the Central Bank has moved to inflation targeting as the guiding framework for monetary policy actions since January 2006. According to this strategy, the forecasted level of inflation has been accepted as a nominal anchor and intermediate target, and the short-term interest rate, as an operational target. Under the inflation targeting strategy, the Central Bank forecasts the inflation indicator and after that it employs its indirect instruments of monetary policy to rectify any divergences from the target indicator. The Central Bank now also highlights the importance of the task to achieve the operational target, manage the level of liquidity and provide the required impetus to the financial market, which are reflected in the monetary policy instruments.

To accomplish its primary goal and the other key objective of maintaining financial stability of the Republic of Armenia, including creating adequate conditions for a reliable, liquid, solvent and normally-functioning banking system, the Central Bank acts in the financial market as a lender

of last resort and enables commercial banks operating in the Republic of Armenia (hereinafter referred to as “the commercial banks”) to invest any time excess funds accordingly at higher and lower rates than the market interest rates.

For uninterrupted payment and settlement transactions during an operational day, the Central Bank provides the commercial banks, at their discretion, with dram liquidity in the form of an intraday repo.

In consideration of long-term and far-reaching objectives, the Central Bank may also change the standard of reserve requirement on funds allocated with the Central Bank as well as adjust the mechanism of provisioning. This tool is used as the main prudential standard of banking. The mechanism of averaging which underlies the calculation of the prudential helps smoothen short-term abrupt volatilities in interest rates in Armenia's financial market.

To prevent random falling of bond prices, the Central Bank looks to an established procedure to determine and publish an initial margin (haircut) and a trigger point for a repo transaction involved (see annex 2).

The Central Bank underscores the importance of maintaining and developing relations of free competition in the domestic financial market and implements its operations by using market mechanisms.

Indirect Instruments of Monetary Policy of the Central Bank

The Central Bank acts in the financial market by using indirect instruments of the monetary policy. These instruments fall into four groups by purpose of implementation, as follows: (see annex 4).

1. **Main refinancing instrument**, which is used for carrying out a repo transaction on the Central Bank's initiative. The instrument is used for providing of short-term liquidity.

2. **Fine-tuning instruments** which are used for executed repo, reverse repo transactions, liquidity-providing and liquidity-absorbing foreign exchange swaps, as well as deposit auctions. The instruments are conducted with the aim of managing the liquidity situation in the market and steering interest rates in order to smooth the effects on interest rates caused by unexpected short term liquidity fluctuations in the market.
3. **Structural instruments** are executed on the Central Bank's initiative as the longer-term refinancing operations (repo), outright transactions and foreign exchange operations, as well as issuance of the Central Bank securities. The instruments are used for providing and/or -absorbing liquidity from market participants for a relatively long period in the event structural changes take place.
4. **Standing facilities instruments**, which are used for attracting and/or allocating funds on commercial banks initiative. Standing facilities instruments are aimed at providing and absorbing overnight liquidity and bound overnight market interest rates since their rates reflect the higher and lower rates in the short-term market.

Under a Central Bank Board resolution, the use of indirect instruments of monetary policy is also possible by ways other than the ones envisaged by these rules.

1. Main refinancing operations

- Main refinancing operations (repo) involves a transaction whereby the commercial bank sells securities to the Central Bank at an agreed price with an obligation to repurchase them upon the day of maturity and pay the relevant interest amount, while the Central Bank will obtain the securities with an obligation to resell them upon the day of maturity.
- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through an auction.
- Only the securities issued by the Central Bank, Ministry of Finance as well as securities [eligible for trades on the stock exchange] issued by the commercial organizations which have a rating from "A+" to "C" assigned by the Central Bank of the Republic of Armenia,

as well as other bonds pursuant to Central Bank Board decision can be used for transactions (see annex 2).

- As a rule, the transaction has a maturity of 7 days.
- The transaction executed at the fixed or variable interest rates.
- The Central Bank announcement of standard tender for concluding the transaction shall specify the main terms and conditions, such as the reference number, type, trade date, value date, maturity date, interest rate, the opening date, the opening hour and the closing hour for submission of bids.
- As a rule, shall be each Wednesday. If the Wednesday is a non-business day, the value date of transaction shall be held on the next business day.
- The volume of providing liquidity is memorized by the Central Bank. If the demand of commercial banks exceeds the volume memorized by the Central Bank, it can be satisfied partially.
- The use of the instrument results is an increased level of liquidity.

2. Fine-tuning instruments

2.1. Repo

- Repo involves transactions whereby the commercial bank will sell securities to the Central Bank at an agreed price with an obligation to repurchase them upon the day of maturity and pay the relevant interest amount, while the Central Bank will obtain the securities with an obligation to resell them upon the day of maturity.
- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through an auction and bilateral negotiations.
- Only the securities issued by the Central Bank, Ministry of Finance as well as securities [eligible for trades on the stock exchange] issued by the commercial organizations which have a rating from "A+" to "C" assigned by the Central Bank of the Republic of Armenia, as well as other bonds pursuant to Central Bank Board decision can be used for transactions (see annex 2).
- As a rule, the transaction has a maturity of up to 7 days.

- The transaction is executed at the fixed or variable interest rates.
- The Central Bank announcement of quick tender for concluding the transaction shall specify the main terms and conditions, such as the reference number, type, trade date, value date, maturity date, interest rate, the opening date, the opening hour and the closing hour for submission of bids.
- The volume of providing liquidity is memorized by the Central Bank. If the demand of commercial banks exceeds the volume memorized by the Central Bank, it can be satisfied partially.
- The use of the instrument results is an increased level of liquidity.

2.2. Reverse repo

- Reverse repo involves a transaction whereby the commercial bank will obtain securities from the Central Bank at an agreed price with an obligation to resell them upon the day of maturity, while the Central Bank will sell securities with an obligation to repurchase them and pay the relevant interest amount upon the day of maturity.
- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through an auction and bilateral negotiations.
- Only the securities issued by the Central Bank and the Ministry of Finance of the Republic of Armenia can be used for operations.
- As a rule, the transaction has maturity of up to 28 days.
- the transaction is executed at the fixed or variable interest rates.
- The Central Bank announcement of quick tender for concluding the transaction shall specify the main terms and conditions, such as the reference number, type, trade date, value date, maturity date, interest rate, the opening date, the opening hour and the closing hour for submission of bids.
- The volume of liquidity-absorbing is memorized by the Central Bank. If the demand of the commercial banks exceeds the volume memorized by the Central Bank, it can be satisfied partially.
- The use of the instrument results is reduced level of liquidity..

2.3. Liquidity-providing foreign exchange swaps

- Liquidity-providing foreign exchange swaps refer to a transaction whereby the commercial bank buys Armenian drams spot against non-cash US dollars (EUR) as the first step and, at the same time, sells it back in a forward transaction on a specified repurchase date as the second step.
- The second step of the transaction involves also a payment of swap interest rate in Armenian drams (see annex 3); if the swap interest rate is positive, the commercial bank pays to the Central Bank and if the swap interest rate is negative, Central Bank pays to the commercial bank.
- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through an auction.
- As a rule, the transaction has a maturity of up to 182 days.
- The Central Bank announcement of quick tender for concluding the transaction shall specify the main terms and conditions, such as the reference number, type, trade date, value date, maturity date, the swap rate, the spot exchange rate, the deadline for submission of bids.
- The volume of providing liquidity is memorized by the Central Bank. If the demand by the commercial banks exceeds the volume memorized by the Central Bank, it can be satisfied partially.
- The use of the instrument results in an increased level of liquidity.

2.4. Liquidity-absorbing foreign exchange swap

- Liquidity-absorbing foreign exchange swap refers to a transaction whereby the commercial bank buys non-cash US dollars (EUR) spot against Armenian drams from the Central Bank as the first step and, at the same time, sells it back in a forward transaction on a specified repurchase date as the second step.

- The second step of the transaction involves also payment of swap interest rate in Armenian drams (see annex 3); if the swap interest rate is positive, the Central Bank pays to the commercial bank, if the swap interest rate is negative, the commercial bank pays to the Central Bank.
- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through an auction.
- As a rule, the transaction has a maturity of up to 182 days.
- The Central Bank announcement of quick tender for concluding the transaction shall specify the main terms and conditions, such as the reference number, type, trade date, value date, maturity date, the swap rate, the spot exchange rate, the deadline for submission of bids.
- The volume of absorbing liquidity is memorized by the Central Bank. If the demand by the commercial banks exceeds the volume memorized by the Central Bank, it can be satisfied partially.
- The use of the instrument results in reduced level of liquidity.

2.5. Collection of fixed-term deposits through auction

- Collection of fixed-term deposits through auction involves a transaction whereby the Central Bank will attract drams from a commercial bank at an agreed price on the value date with an obligation to return them and pay interest at maturity.
- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through an auction.
- As a rule, the transaction has a maturity of up to 28 days.
- The transaction is executed at the fixed or variable interest rates.
- The Central Bank announcement of quick tender for concluding the transaction shall specify the main terms and conditions, such as the reference number, type, trade date, value date, maturity date, the interest rate, the deadline for submission of bids.

- The volume of absorbing liquidity is memorized by the Central Bank absorbs. If the demand by the commercial banks exceeds the volume memorized by the Central Bank, it can be satisfied partially.
- The use of the instrument results in reduced level of liquidity.

3. Structural instruments

3.1. Long-term refinancing instrument

- Long-term refinancing operation (repo) involves a transaction whereby the commercial bank will sell securities to the Central Bank at an agreed price with an obligation to repurchase them and pay the set interest amount upon the day of maturity, while the Central Bank will obtain the securities with an obligation to resell them upon the day of maturity.
- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through an auction and bilateral negotiations.
- Only the securities issued by the Central Bank, Ministry of Finance as well as securities [eligible for trades on the stock exchange] issued by the commercial organizations which have a rating from "A+" to "C" assigned by the Central Bank of the Republic of Armenia, as well as other bonds pursuant to Central Bank Board decision can be used for operations (see annex 2).
- As a rule, the transaction has a maturity of up to 91 days.
- The transaction is executed at the fixed or variable interest rates.
- The Central Bank announcement of standard tender for concluding the transaction shall specify the main terms and conditions, such as the reference number, type, trade date, value date, maturity date, interest rate, the opening date, the opening hour and the closing hour for submission of bids.
- The volume of providing liquidity is memorized by Central Bank. If the demand by the commercial banks exceeds the volume memorized by the Central Bank, it can be satisfied partially.

- The use of the instrument results in an increased level of liquidity.

3.2. Outright purchase

- Outright purchase involves the transaction whereby the Central Bank buys securities in the secondary market of government bonds of the Republic of Armenia (see annex 1).
- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through an auction, stock exchange or bilateral negotiations.
- Only securities issued in local currency by the Ministry of Finance of the Republic of Armenia are eligible for transactions.
- The Central Bank announcement of standard tender for concluding the transaction shall specify the main terms and conditions, such as the reference number, type, trade date, value date, the deadline for submission of bids, the type and/or registration number of the security, and/or the yield and/or the price of the security, and/or the maturity date or absence of any limitations to maturity.
- The volume of providing liquidity is memorized by the Central Bank. If the volume presented to the tender by the commercial banks exceeds the volume memorized by the Central Bank, it can be satisfied partially.
- The purchase of securities at the stock exchange is executed in accordance with the rules of the stock exchange for buy and sell of securities at the stock exchange.
- The use of the instrument results in an increased level of liquidity.

3.3. Outright Sale

- Outright sale involves the transaction whereby the Central Bank sells securities in the secondary market of government bonds of the Republic of Armenia (see annex 1).
- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through an auction, stock exchange or bilateral negotiations.
- Only securities issued in local currency by the Ministry of Finance of the Republic of Armenia are eligible for transaction.

- The Central Bank announcement of standard tender for concluding the transaction shall specify the main terms and conditions, such as the reference number, type, trade date, value date, the deadline for submission of bids, the type and/or registration number of the security, and/or the yield and/or the price of the security, and/or the maturity date or absence of any limitations to maturity.
- The volume of absorbing liquidity is memorized by the Central Bank. If the volume presented to the tender by the commercial banks exceeds the volume memorized by the Central Bank, it can be satisfied partially.
- The sale of securities at the stock exchange is executed in accordance with the rules of the stock exchange for buy and sell of securities at the stock exchange.
- The use of the instrument results in reduced level of liquidity.

3.4. Issuance of the Central Bank securities

- The issuance of the Central Bank involves the Central Bank issuing and allocating short-term discount securities (see annex 1).
- The transaction is executed with the commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through an auction.
- As a rule, the Central Bank will issue securities with a maturity of 91 and 182 days.
- The Central Bank announcement of standard tender for concluding the transaction shall specify the main terms and conditions, such as the issuance serial number, day and time of issue, the volume of issuance, the maturity date, the minimum buy offer, the step.
- If the demand of the commercial banks exceeds the volume issued by the Central Bank, it can be satisfied partially.
- The use of the instrument results in reduced level of liquidity.

3.5. Purchase of foreign currency

- The purchase of foreign currency involves the Central Bank buying foreign currency in the financial market of the Republic of Armenia.

- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through an auction, stock exchange or bilateral negotiations.
- The Central Bank announcement of quick tender for concluding the transaction shall specify the main terms and conditions of quick tender: reference number, type of operation, trade date (day), value date (day), the opening date, the opening hour and the closing hour for submission of bids, maximum volume (if any) presented by each commercial bank, maximum number of bids presented by each commercial bank, multiple of volume, other notes.
- Quick tender announced can be executed as a variable or fixed tender.
- In a fixed tender, the announcement of the Central Bank also indicates the exchange rate while the volume of purchase of foreign currency is memorized.
- In a fixed tender, bids are satisfied to the extent of the volume memorized; if the demand of commercial banks exceeds the memorized volume of the Central Bank, it can be satisfied partially.
- In a variable tender, the announcement of the Central Bank also indicates the benchmark volume of purchase of foreign currency by the Central Bank.
- In a variable tender, bids (authorized bids) are satisfied (partially satisfied or rejected) in the following order:
 1. authorized bids are classified in ascending order according to exchange rates, as an aggregate,
 2. all bids at 3 to 5 lowest rates can be separated,
 3. if the aggregate volume of unseparated (remained) bids is smaller than the benchmark volume indicated in the announcement of the Central Bank, all separated bids as referred to in subparagraph 2 above will participate in the tender, otherwise there will be a switch to the next step,
 4. an average weighted exchange rate is calculated to unseparated (remained) bids at the assumption of satisfying the benchmark volume indicated in the announcement of the Central Bank,
 5. if the exchange rate of the separated bid as referred to in subparagraph 2 above is smaller from (or equal to) the average weighted exchange rate as referred to in

subparagraph 4 above by 0.5 to 1 percent, that bid shall not participate in the tender, while all authorized bids that participate in the tender shall be classified in ascending order according to exchange rates, as an aggregate,

6. bids are satisfied starting from bids with the lowest exchange rate until the volume set by the Central Bank is complete. *If the exchange rate of the bid to be satisfied is two percent smaller than the marginal rate (highest exchange rate of the bids satisfied), that bid shall be satisfied at the marginal rate minus two percent exchange rate.* If the aggregate volume of bids to be satisfied with the marginal rate (highest exchange rate of the bids satisfied) stands below the aggregate volume of bids with any particular exchange rate, the weights of bids submitted with marginal rates will be satisfied on a pro rata basis; otherwise the entire volume of bids with any particular marginal rate will be satisfied.
- Purchase of foreign currency at the stock exchange is executed in accordance with relevant rules of the stock exchange.
 - The use of the instrument results in an increased level of liquidity.

(Paragraph 3.5 edited under CBA Board Resolution No. 338-A, dated 06.12.2014; amended under CBA Board Resolution No. 341-A, dated 12.12.2014)

3.6. Sale of foreign currency

- Sale of foreign currency involves the Central Bank selling foreign currency in the financial market of the Republic of Armenia.
- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- The transaction is executed through tender, stock exchange or bilateral negotiations.
- The Central Bank announcement of quick tender for concluding the transaction shall specify the main terms and conditions of quick tender: reference number, type of operation, trade date (day), value date (day), the opening date, the opening hour and the closing hour for submission of bids, maximum volume (if any) presented by each commercial bank, maximum number of bids presented by each commercial bank, multiple of volume, other notes.

- Quick tender announced can be executed as a variable or fixed tender.
- In a fixed tender, the announcement of the Central Bank also indicates the exchange rate while the volume of sale of foreign currency is memorized.
- In a fixed tender, bids are satisfied to the extent of the volume memorized; if the supply of commercial banks exceeds the memorized volume of the Central Bank, it can be satisfied partially.
- In a variable tender, the announcement of the Central Bank also indicates the benchmark volume of sale of foreign currency by the Central Bank.
- In a variable tender, bids (authorized bids) are satisfied (partially satisfied or rejected) in the following order:
 1. authorized bids are classified in descending order according to exchange rates, as an aggregate,
 2. all bids at 3 to 5 lowest rates can be separated,
 3. if the aggregate volume of unseparated (remained) bids is smaller than the benchmark volume indicated in the announcement of the Central Bank, all separated bids as referred to in subparagraph 2 above will participate in the tender, otherwise there will be a switch to the next step,
 4. an average weighted exchange rate is calculated to unseparated (remained) bids at the assumption of satisfying the benchmark volume indicated in the announcement of the Central Bank,
 5. if the exchange rate of the separated bid as referred to in subparagraph 2 above is higher from (or equal to) the average weighted exchange rate as referred to in subparagraph 4 above by 0.5 to 1 percent, that bid shall not participate in the tender, while all authorized bids that participate in the tender shall be classified in descending order according to exchange rates, as an aggregate,
 6. bids are satisfied starting from bids with the highest exchange rate until the volume set by the Central Bank is complete. *If the exchange rate of the bid to be satisfied is two percent higher than the marginal rate (lowest exchange rate of the bids satisfied), that bid shall be satisfied at the marginal rate plus two percent exchange rate.* If the aggregate volume of bids to be satisfied with the marginal rate (lowest exchange rate of the bids satisfied) stands below the aggregate volume of bids with any particular

exchange rate, the weights of bids submitted with marginal rates will be satisfied on a pro rata basis; otherwise the entire volume of bids with any particular marginal rate will be satisfied.

- Sale of foreign currency at the stock exchange is executed in accordance with relevant rules of the stock exchange.
- The use of the instrument results in reduced level of liquidity.

(Paragraph 3.6 edited under CBA Board Resolution No. 338-A, dated 06.12.2014; amended under CBA Board Resolution No. 341-A, dated 12.12.2014)

4. Standing facility instruments

4.1. Lombard repo

- Lombard repo involves a transaction whereby the commercial bank will sell securities to the Central Bank due to the Global agreement at an agreed price with an obligation to repurchase them and pay the relevant interest amount upon the day of maturity, while the Central Bank will obtain the securities with an obligation to resell them upon the day of maturity.
- The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- Only the securities issued by the Central Bank, Ministry of Finance as well as securities [eligible for trades on the stock exchange] issued by the commercial organizations which have a rating from "A+" to "C" assigned by the Central Bank, as well as other bonds pursuant to Central Bank Board decision can be used for operations (see annex 2).
- Any offer by a commercial bank for concluding a Lombard Repo transaction will be met unconditionally.
- The Lombard Repo transaction has a maturity of 1 day.
- The use of the instrument results in an increased level of liquidity.

4.2. Deposit

- Instrument of attracting cash funds involves the Central Bank attracting cash from the commercial banks. The transaction is executed with commercial banks in accordance with relevant contracts concluded before.
- Any offer by a commercial bank for placing cash funds with the Central Bank will be met unconditionally. Attracted cash funds have a maturity of 1 day.
- The use of the instrument results in a reduced level of liquidity.

Mechanisms of Use of Indirect Instruments of Monetary Policy

The main refinancing and structural operations, with the exception of the foreign exchange auctions, are executed by the Central Bank in the form of standard tender. Standard tenders are executed according to any pre-specified calendar and frequency, and long enough period of fixed time is set between the provision of information and the conduct of the tender, so as to increase the degree of freedom of market participants in their decision-making process.

The tenders of fine-tuning instruments and foreign exchange auctions are executed in the form of quick tender. The quick tender implies executing transactions as and when an appropriate need arises, and will be carried out in the shortest possible period of time..

Standing facility instruments are executed through entering into bilateral transactions.

Operations with the use of indirect instruments of monetary policy which the Central Bank carries out at the stock exchange are subject to operational rules of the stock exchange.

Bilateral transactions are concluded through negotiations and shall be regulated under relevant contracts and agreements signed between the Central Bank and the commercial banks.

The procedures for transactions between the Central Bank and the commercial banks in order to use indirect instruments of the monetary policy, as well as the forms of bank applications for transactions and the forms of approval and rejection by the Central Bank of such applications shall be established in relevant contracts and agreements signed between the Central Bank and the commercial banks.

The Central Bank's announcements about transactions are available through the official homepage of the Central Bank and/or the CBANet, i.e. the Bank's interbank network. If it is impossible, the announcements can be made publicly by means of wire services or S.W.I.F.T. network.

For transactions by the use of indirect instruments of monetary policy at the Central Bank auctions, where the volumes offered by the commercial banks exceed the volume the Central Bank has memorized,

- in case of a fixed rate auction, submitted bids are satisfied *pro rata*, according to the ratio of the amount to be allotted to the aggregate amount bid;
- in case of a variable rate auction, bids are satisfied starting from the offers with the highest(lowest) interest rate (yield) until the total liquidity to be allotted is exhausted. If, at the marginal rate (yield) level accepted, the aggregate amount bid exceeds the remaining amount to be allotted, the remaining amount is allocated *pro rata* among the bid at the marginal interest rate (yield), otherwise the aggregate amount bids will be satisfied at the marginal interest rate (yield).

Standard tender

The main refinancing and structural instruments (except for foreign currency trades) are executed by the Central Bank in the form of standard tender (see annex 5, scheme 1, 2). In case of a standard tender the Central Bank announce the terms and conditions for any given type of transaction until 5 p.m. of the bank day prior to the concluding of the transaction.

For participation in auctions for operations with the main refinancing and structural instruments (except for foreign currency trades), the commercial banks may submit their bids to the Central Bank within a timeframe starting from submission of bids until 10:30 a.m. of the trade date. The Central Bank will make a roundup of the bids submitted and announce its decision on satisfying (partially satisfying) or rejecting the offers to the commercial banks until 12:30 p.m. of the trade date.

In case of a standard tender for the Central Bank securities allocation, the commercial banks may submit their bids to the Central Bank within a timeframe from 5:00 p.m. of the working day prior

to trade date up to 11:00 a.m. of the trade date. The Central Bank will make a roundup of the bids submitted and announce its decision on satisfying (partially satisfying) or rejecting the offers to the commercial banks until 1:00 p.m. of the trade date.

Quick tender

Fine-tuning and foreign currency auctions are executed by the Central Bank in the form of quick tender, at any time of the operational day (see annex 5, scheme 3). In case of a quick tender of fine-tuning operations, the terms and conditions for each type of operation are announced by the Central Bank at least 1.5 hour minutes prior to the time for submission of bids.

For participation in tenders for fine-tuning and foreign currency instruments, the commercial banks may submit their bids to the Central Bank within a timeframe starting from submission of bids until the time for submission of bids. The Central Bank will make a roundup of the bids submitted and announce its decision on satisfying (partially satisfying) or rejecting the offers to the commercial within a maximum of 2 hours after submission of.

Concluding transactions with standing facility instruments

For transactions with standing facility instruments, the commercial banks may submit their bids to the Central Bank up until 4 p.m. of the trade date.

The commercial bank's bid submitted to the Central Bank for concluding a transaction with standing facility instrument will be satisfied except when such a bid or format is not in the form that meets the requirements of this paper and of the relevant contract signed between the commercial bank and the Central Bank.

The Central Bank will communicate its decision on rejecting the submitted (accepted) bids to the commercial banks up until 5 p.m. of the trade date.

The standing facility instruments mature on the next day of trade date until 10:30 a.m.

Interest Rates of Indirect Instruments of Monetary Policy of the Central Bank

The Board of the Central Bank determines interest rates of Lombard repo and Deposit as well refinancing rates as per schedule of setting interest rates of monetary instruments. Once approved by the Board, interest rates will be announced through an established means of communication and facilities of mass media. Only after that will these interest rates serve a basis for concluding the Central Bank operations.

The refinancing rate set by the Board of the Central Bank will be accepted as interest rate for the implementation of the main refinancing instrument or the lowest interest rate.

Repo, reverse repo, long-term refinancing operations, liquidity-providing and liquidity-absorbing foreign currency swaps and deposit auctions are executed using interest rates set by the Central Bank. The decision making process of setting of interest rates is based on the trends in the financial market of the Republic of Armenia.

The yield of instruments used for trading of securities is defined basing upon the yield curve of treasury bills of the day prior to the execution of the transaction.

Each day's interest rate is calculated using the ratio of $1/365$ of the interest rate concluded and the ratio of $1/366$ for the leap year. The interest amount will be rounded to AMD 0.1 (zero point one).

Provision of Information by the Central Bank to the Financial Market

At the start of each quarter, Board of the Central Bank will announce about the Central Bank action in achieving the target indicator of inflation in the past quarter, provide an explanation of deviated values of actual and forecasted inflation (if any), and the next quarter's inflation

Translated from Armenian. In the event of any discrepancies between the translation and the text in Armenian, the original text shall take precedence.

forecasts. Both, the announcement and the Inflation Report will be published. The Report will provide overview of the Central Bank's actions in achieving the target indicator of inflation. Subject to the schedule of setting interest rates of monetary instruments, Board of the Central Bank will approve and publish the Central Bank's Situational Report with a detailed coverage of the process of inflation management. To make short-term monetary policy directions more transparent, the Central Bank will, on a daily basis, release information on operations of the Central Bank and commercial banks carried out in the financial market (see annex 6).

To make the price stability-steered monetary policy more effective, the Central Bank will improve the mechanisms of exchange of information with the commercial banks and other financial institutions.