

Monetary Policy Decision

April 30, 2024



**At its meeting today, the Board of the Central Bank of Armenia
decided to decrease the key policy rate by 0.25
percentage points, setting it at 8.25%.**

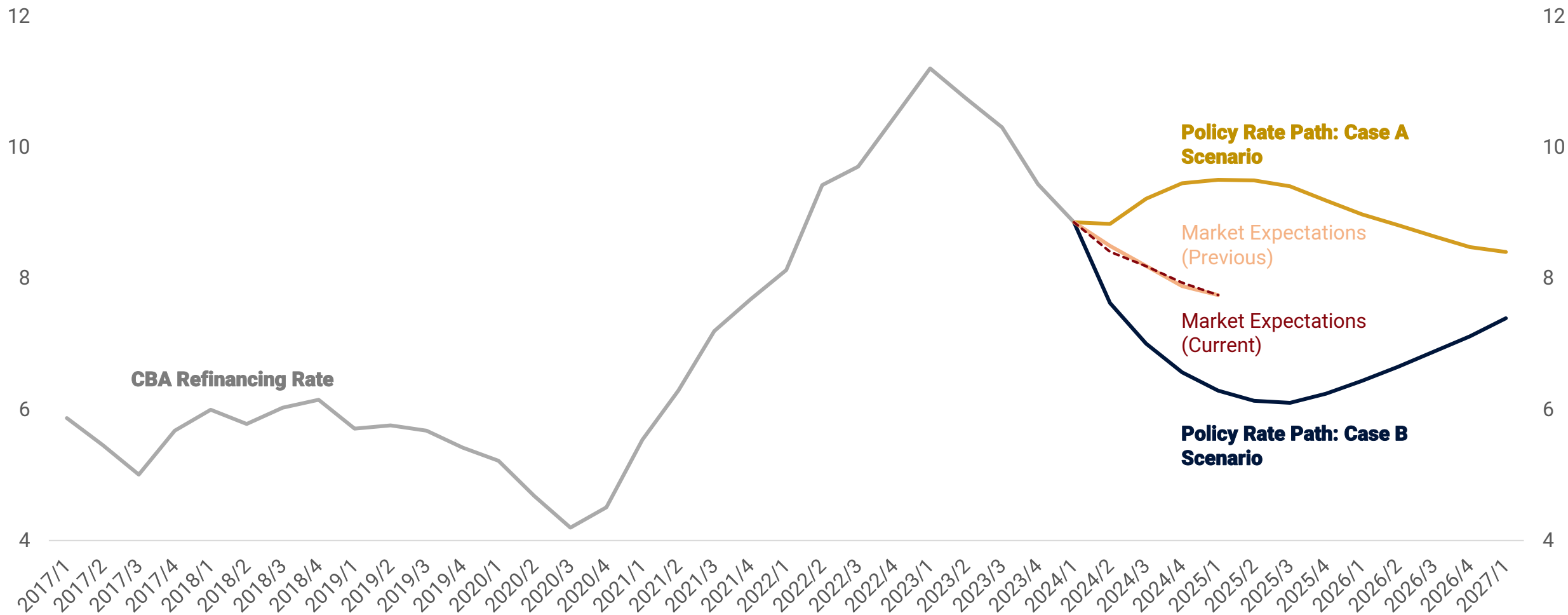
Lombard Repo Facility Rate: 9.75%

Deposit Facility Rate: 6.75%

The Board agrees that a lower refinancing rate is necessary to continue to meet its price stability objective of ensuring an inflation rate of 4 percent over the medium term.



CBA Refinancing Rate & Scenarios-Based Forward Guidance

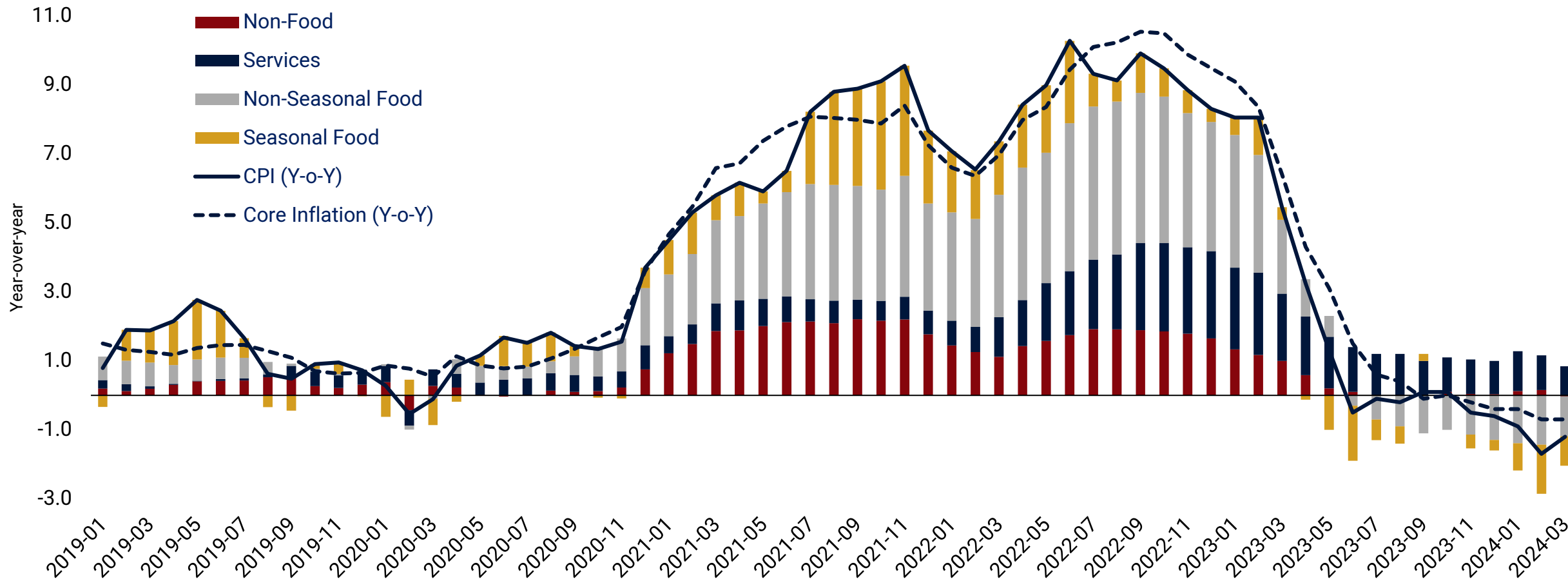


Source: CBA

Annual CPI inflation has continued to remain at low levels well below the target, registering -1.2% in March 2024. Core inflation also continued to decrease, at -0.7% year-over-year in March.



Contribution to Year-over-Year Inflation (Percentage Point)



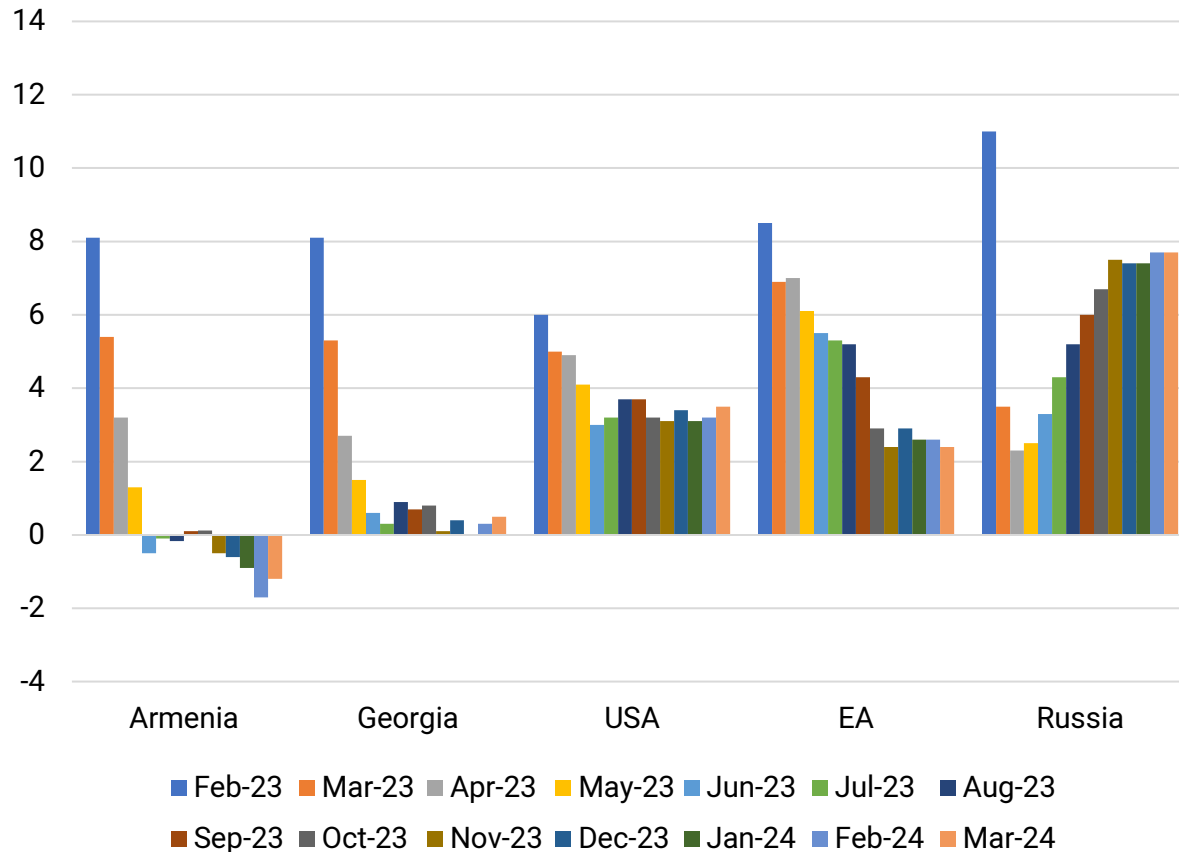
Source: Statistical Committee of the Republic of Armenia, Central Bank of Armenia

In the first quarter of 2024, risks of slowing economic growth globally and in the key trading partner countries of Armenia continue to persist.



Global inflation continues to decline, but sticky prices continue to remain relatively elevated in key trading partner economies.

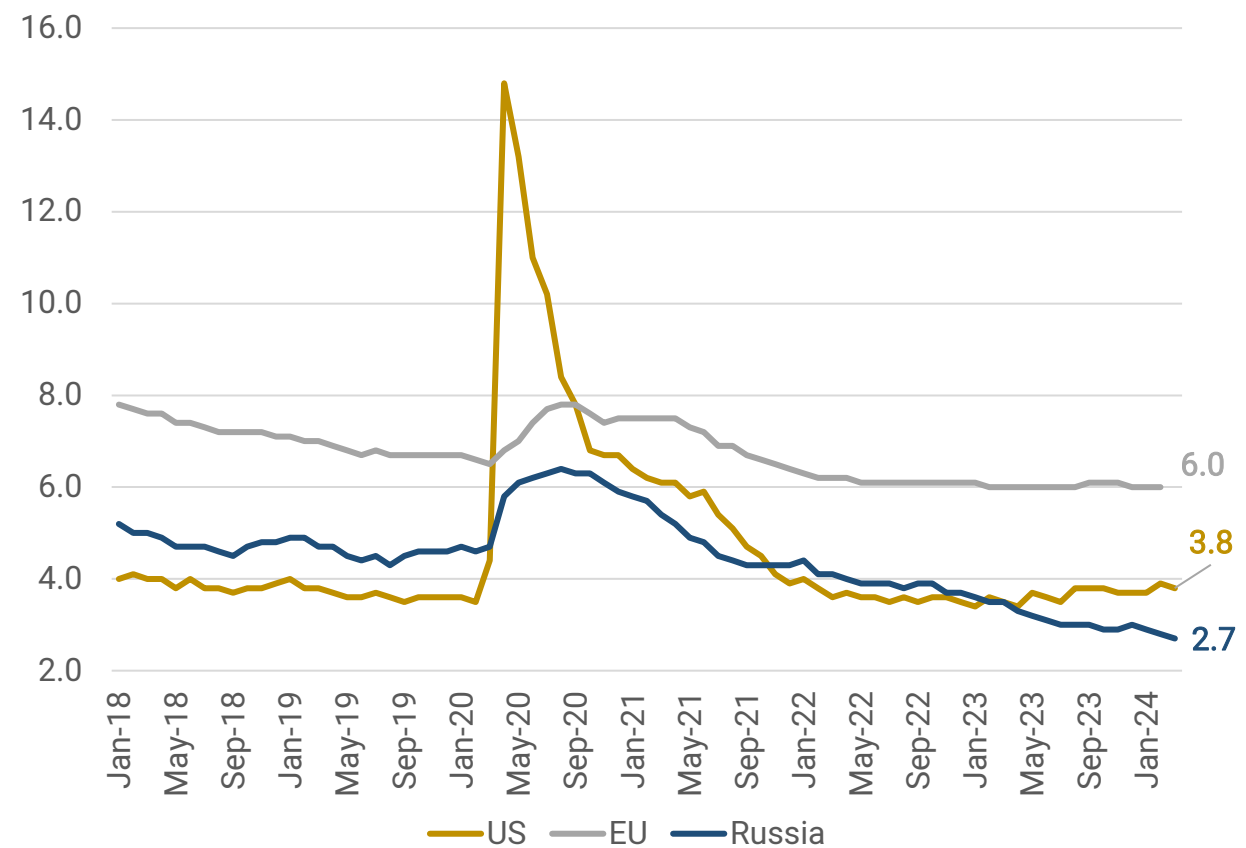
Inflation in Key Trading Partner Countries, Y-o-Y % Change



Source: Countries' statistical agencies

At the same time, overheated labor market conditions continue to contribute to sustained high demand conditions in key trading partner economies.

Unemployment rate in Key Trading Partner Countries, %

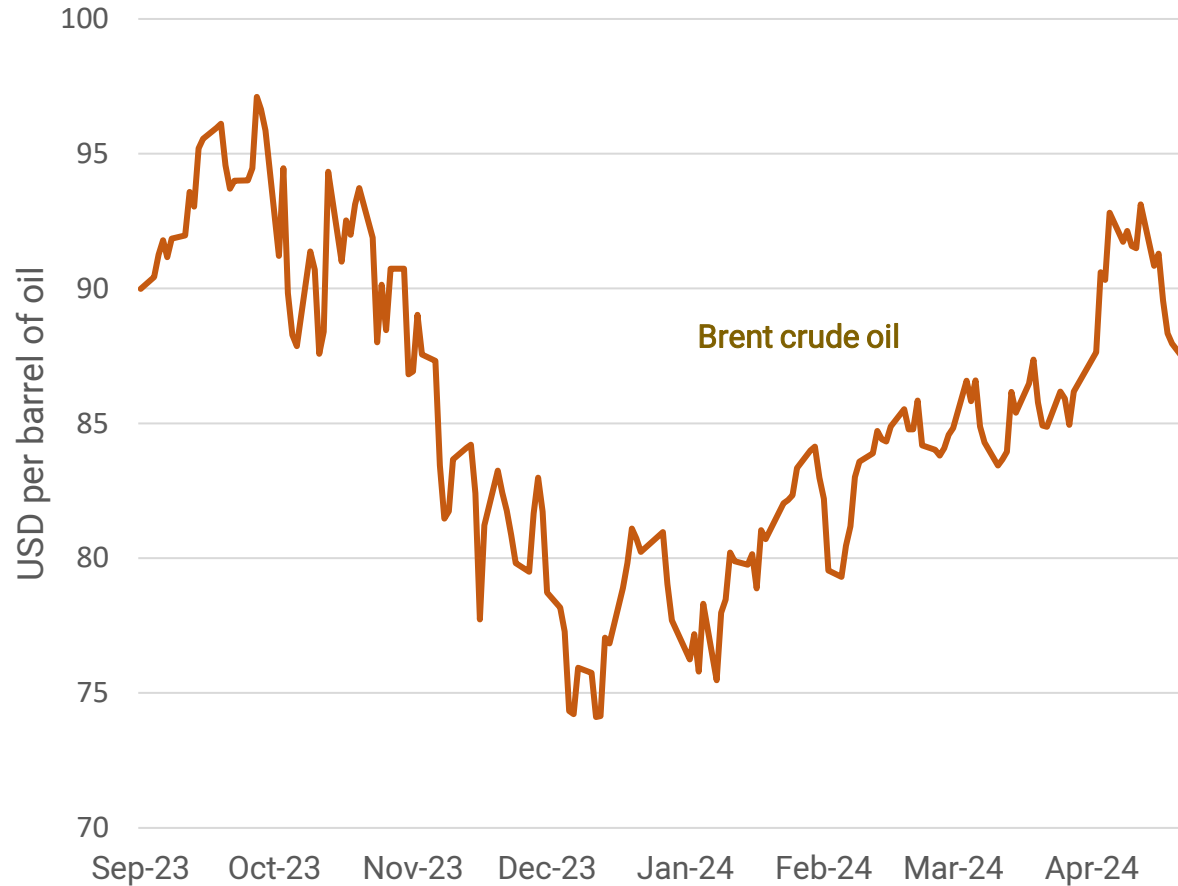


Source: Countries' Statistical services

Weak deflationary effects are expected from the external sector on the Armenian economy.

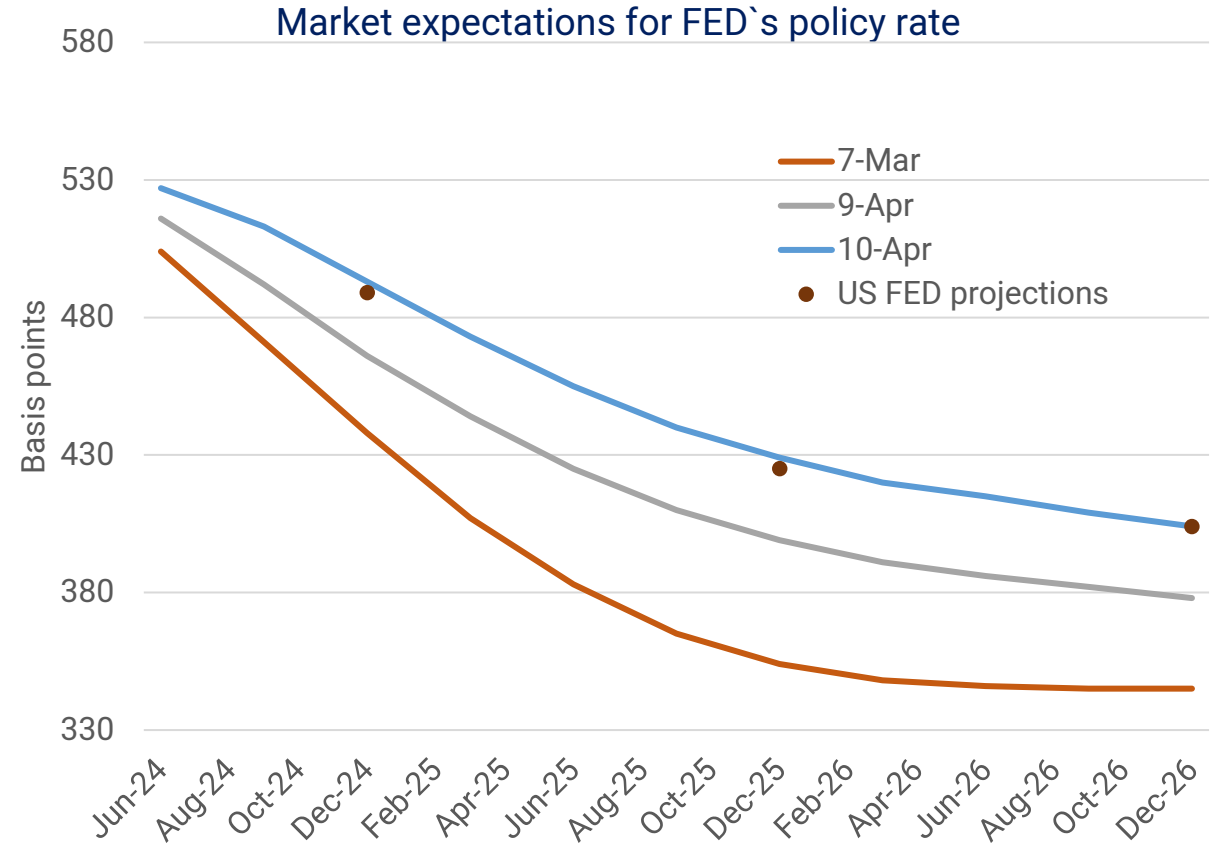


Geopolitical tensions in the Middle East since the beginning of the year continue to create risks for future growth in global energy prices and potential disruptions in global supply chains.



Source: Energy Information Association (EIA)

In this context, it is likely that key trading partner central banks, and in particular the US Fed, would maintain tight monetary conditions for longer.

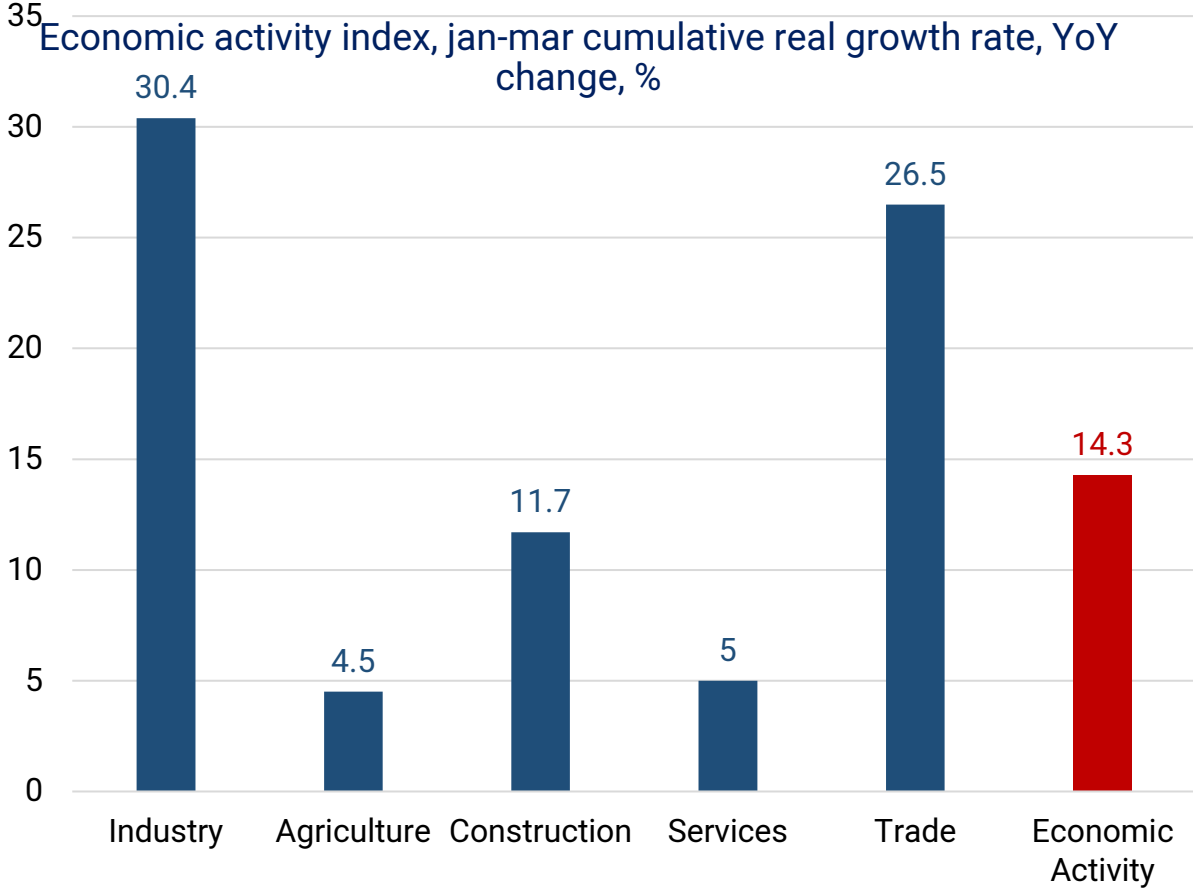


Source: Atlanta FED

Economic activity in Armenia remained robust in the first quarter, continuing to be largely driven by meaningful growth in the trade and industry sectors.

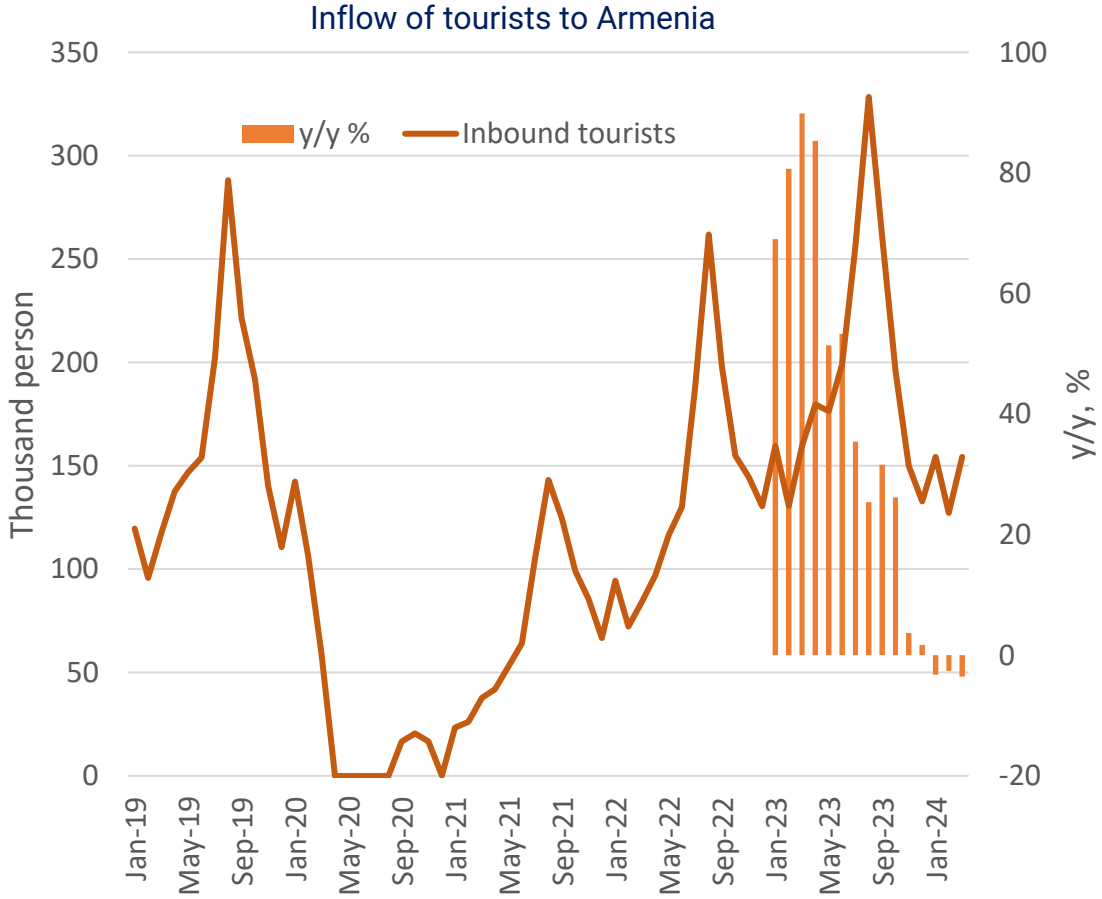


The latter continues to be impacted by certain short term factors, carrying real uncertainties with respect to the sustainability of economic growth and its long-term outlook.



Source: Statistical Committee of RA

External demand for domestic services is slowing, while high growth in private investments continues to contribute to domestic demand.

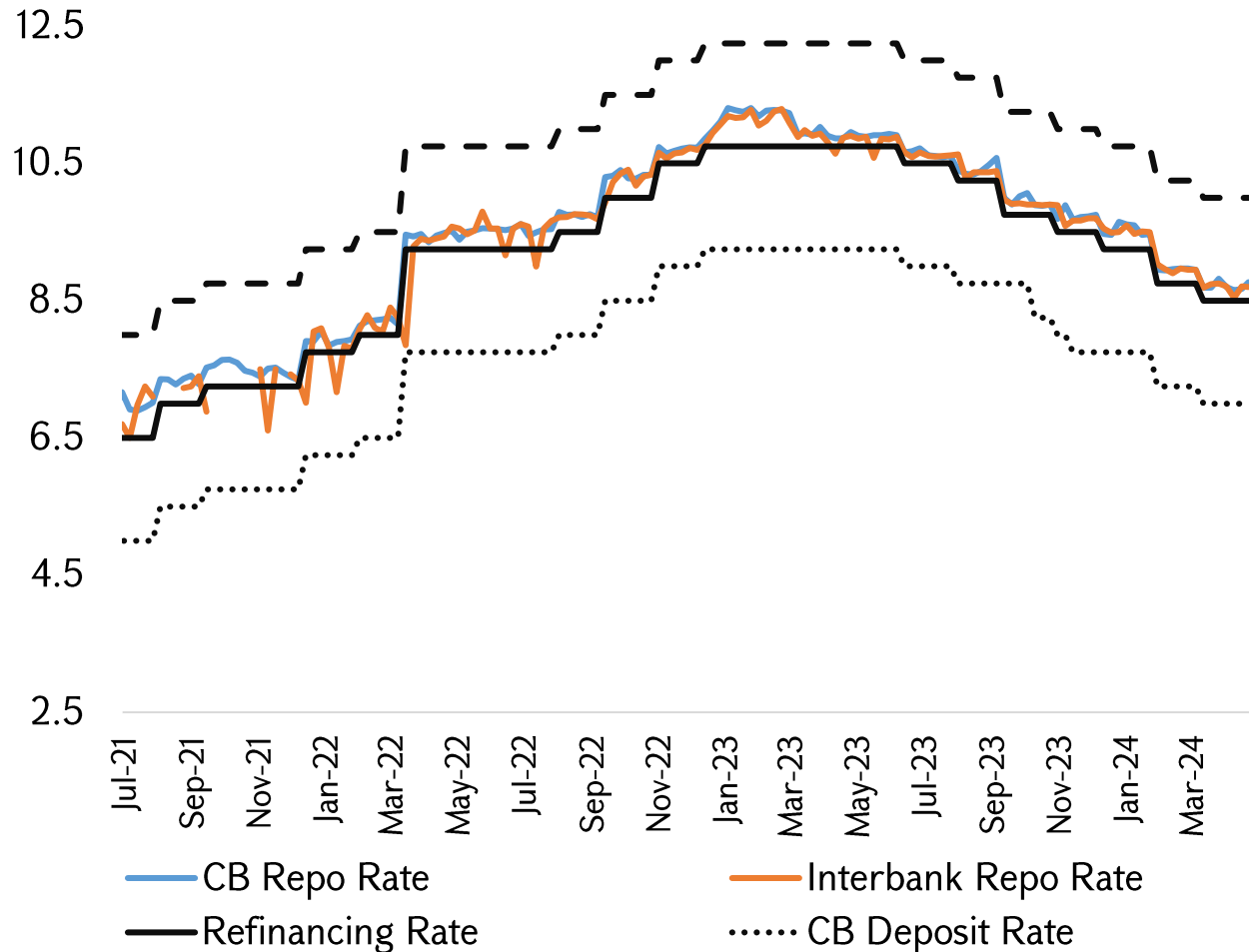


Source: Statistical Committee of RA, CBA calculations

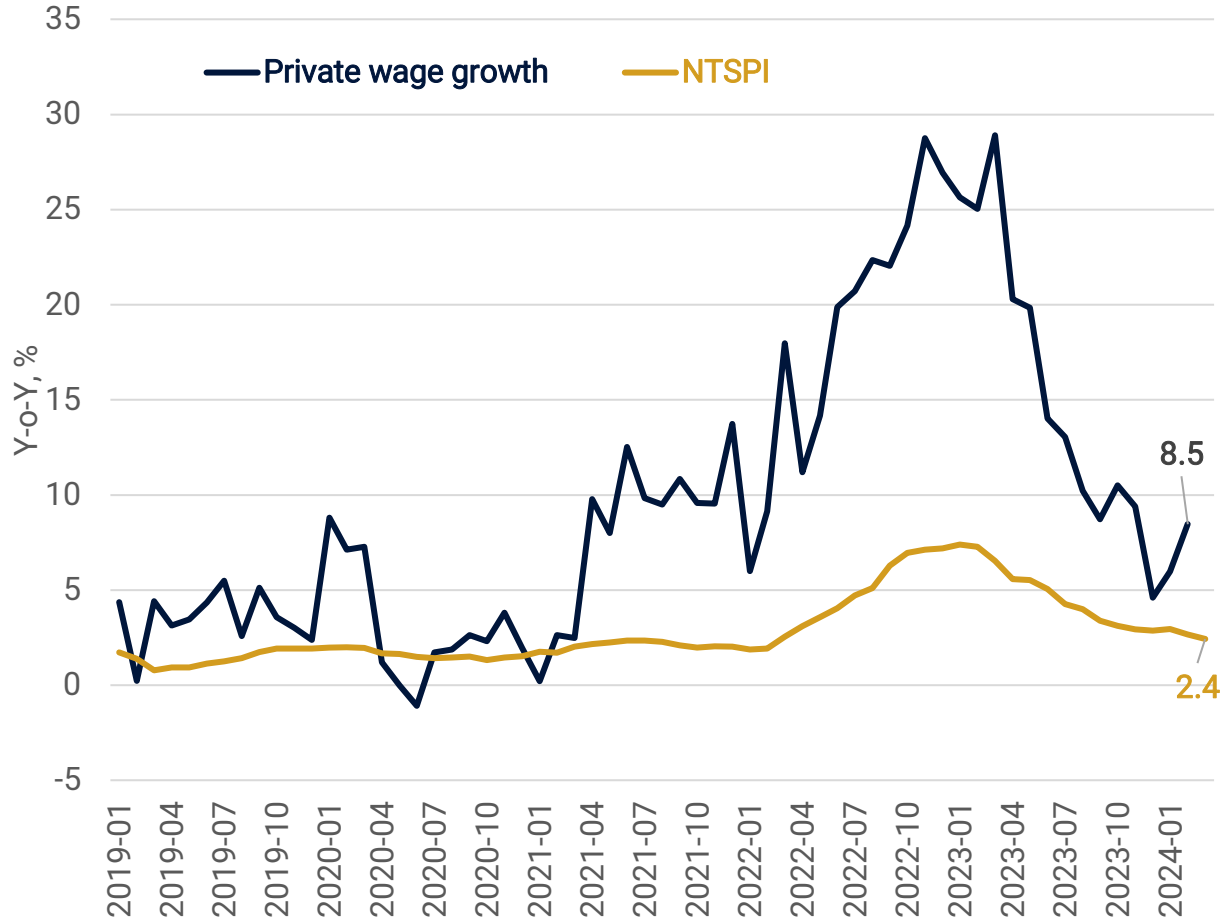
The inflationary environment in Armenia continues to remain low, driven by the monetary policy implemented by the CBA in recent years, weak deflationary pressures from the external sector, and the implications of the appreciated dram.



At the same time, risks for additional demand pressures stemming from fiscal policy continue to persist.



At the same time, growth in labor supply has somewhat eased labor market conditions, which has been reflected in cooling wage growth as well as declining non-traded sticky price inflation and inflation expectations.



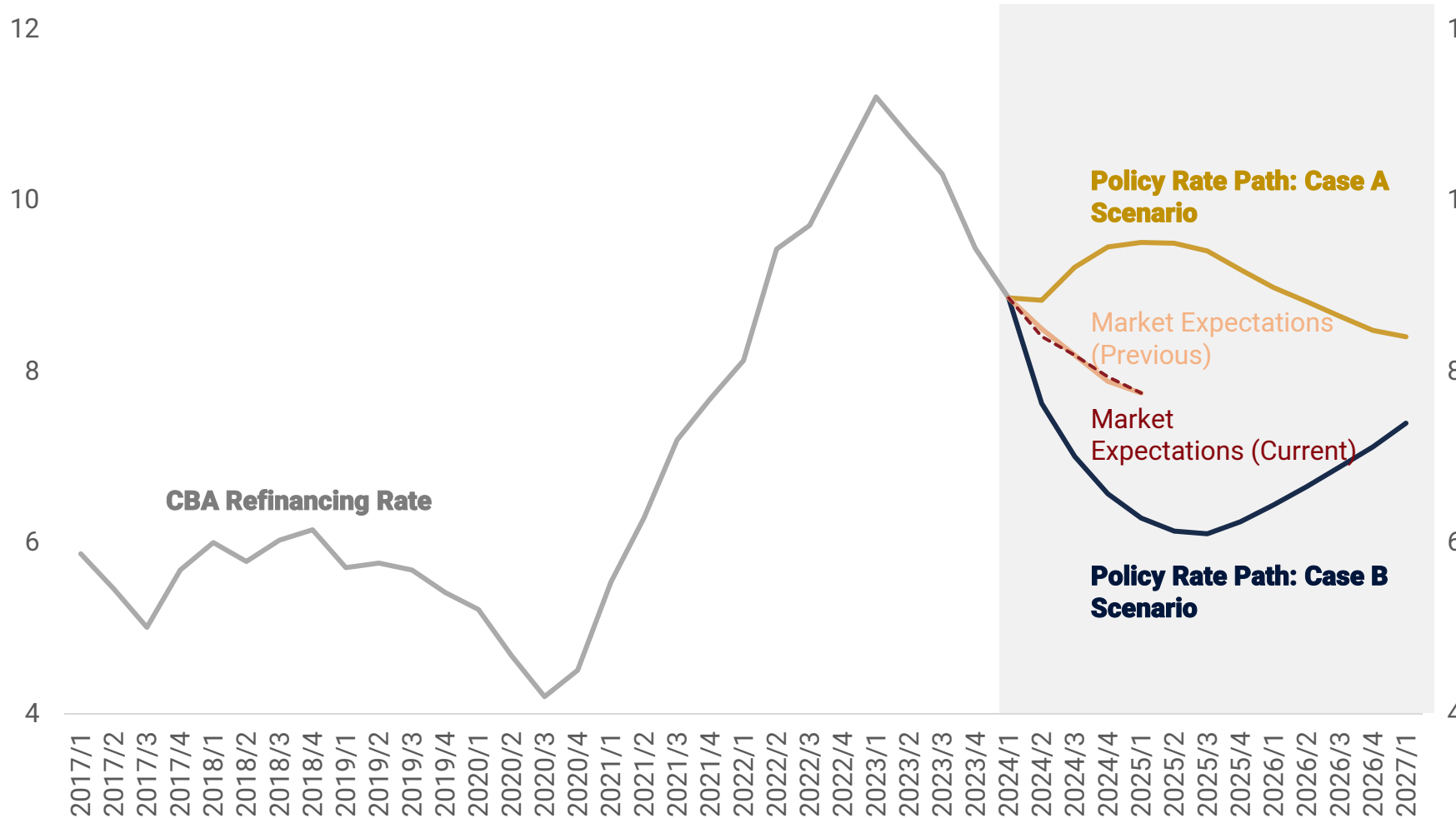
Source: Central Bank of Armenia

Source: Statistical Committee of the Republic of Armenia; Central Bank of Armenia

In the face of high uncertainty, and given its commitment to achieving the price stability objective, the Board considers multiple scenarios during its deliberations.



CBA Refinancing Rate & Scenarios-Based Forward Guidance



Case A-Type Scenarios

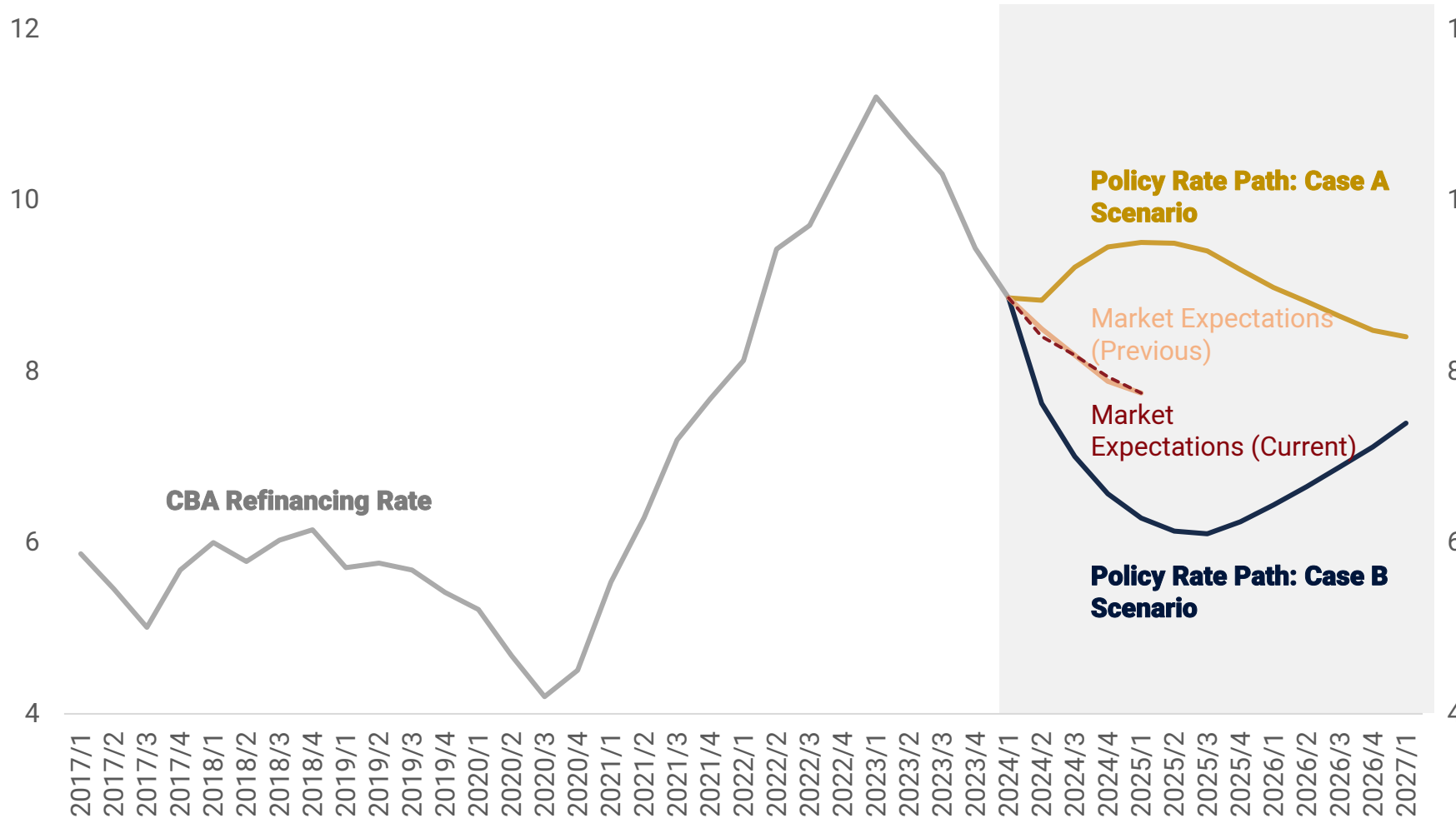
On the one hand, the Board discussed scenarios where possible underlying developments—including tighter monetary conditions in key trading partner countries, as well as uncertainty related to the country risk premium and neutral interest rates—would require a tighter policy stance relative to current market expectations in order to manage risks that threaten the price stability objective.

Source: CBA

In the face of high uncertainty, and given its commitment to achieving the price stability objective, the Board considers multiple scenarios during its deliberations.



CBA Refinancing Rate & Scenarios-Based Forward Guidance



Case B-Type Scenarios

On the other hand, the Board discussed scenarios where potential economic developments—including continued growth in domestic labor supply, as well as a rapid deceleration in demand—would cause inflation to persistently remain at a low level. This would imply a more rapid and aggressive downward path for the policy rate than what is currently priced in markets in order to sustainably bring inflation back to target in the medium-term horizon.

Source: CBA

April 30, 2024 Decision on the Refinancing Rate



In summary, balancing the aforementioned risks in both directions, the Board of the Central Bank of Armenia finds it appropriate to continue to gradually ease the policy stance.

The Board will continue to monitor risk scenarios, and stands ready to take adequate actions to ensure that the price stability objective of 4 percent inflation over the medium-term horizon is met.



Thank You