

Refinancing rate raised by 1.0 pp to 5.25 percent

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At the December 15, 2020 meeting the Board of the Central Bank of Armenia decided to raise the refinancing rate by 1.0 percentage point to 5.25%.

Inflation in November 2020 stood at 1.3%, compared to 1.1% in the same month of the previous year. As a result, the 12-month inflation amounted to 1.6%, still below the 4% target. In November, the 12-month core inflation also continued rising, which at the end of the month stood at about 2.0%.

In the fourth quarter, the world economy developments were mainly affected by the new wave of coronavirus pandemic and the coronavirus-related restrictions in some countries, which had a negative impact on global demand and economic activity. On the other hand, expectations about the possible effective use of vaccines since the beginning of 2021 have created a positive momentum for the outlook of global demand. Under such circumstances, inflationary trends have been recorded in both international commodity and food product markets, which is gradually fueling the inflationary environment of the partner countries. Based on these developments, the CBA Board expects some inflationary impact from the external sector on the Armenian economy.

In Armenia in the third quarter, in line with the CBA forecasts, a y/y 9.1% economic decline was registered, caused by decreases in all sectors of the economy, and services in particular. In the fourth quarter, due to the negative impact of the announced military situation in Armenia, the outbreak of a new wave of coronavirus pandemic, as well as heightened uncertainty, sluggish economic activity and weak domestic demand are expected to persist. On the other hand, implementation of the expansionary fiscal policy will continue contributing positively to aggregate demand. Under such conditions, the estimates of annual economic growth for 2020 have not been revised.

Taking into account some acceleration of inflation amid the expected inflationary effects from the external sector and considering the increase of the country's risk premium, the CBA Board considers it appropriate to raise the refinancing rate. The Board also reckons that the monetary policy stance still remains expansionary, which will need to be gradually reduced over the forecast horizon, in order to stabilize inflation around the 4%

target.

The Board considers that, in view of high uncertainties about economic growth outlook, risks of inflation deviating from the projection path are on the upside in the short run. The Central Bank is monitoring the developments, and should they unfold, the CBA will stand ready to react accordingly, ensuring price stability in the medium run.

You can read detailed information underlying the decision on the level of interest rate in Inflation Report (Monetary Policy Program, Q4, 2020) to be published on December 29, 2020.