

Refinancing Rate Set at 9.25 percent

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At the March 15, 2022 meeting, the CBA Board decided to raise the refinancing rate by 1.25 percentage points, setting it at 9.25%.

In February 2022, both 12-month and core inflation fell in line with the CBA projection, totaling 6.5% and 6.4%, respectively.

In the external sector, in the context of the Russian-Ukrainian conflict, various sanctions have been imposed on Russia's economy. As a result, a significant increase in financial market volatility and uncertainty about economic prospects was observed. In the United States and the Eurozone slowdown of economic growth is expected this year, and economic decline is expected in Russia. At the same time, the disruption of the reviewed supply chains in the international commodity and food markets has caused a significant increase in prices. This is reflected in the formation of a higher-than-expected inflationary environment in partner countries. As a result, a mainly inflationary impact is expected on the Armenian economy from the external sector.

The impact of the sanctions imposed on Russia, will be reflected in the significant slowdown of economic growth in Armenia. This will be mostly conditioned by the industrial decline. Total demand will be affected by declining remittances and sluggish external demand. A positive contribution from tourism sector is expected. Growing geopolitical risks in the region and the high uncertainty has led to increased volatility in the Armenian financial markets and bigger risk premium. The existing uncertainties were reflected in the inflation dynamics and inflation expectations as well.

In view of the above, the Board judges appropriate to increase the refinancing rate by a relatively large step. The Board considers that amid the economic outlook uncertainties and provided the risks of rising inflation expectations persist, the need for possible tightening of monetary conditions in the near future will be considered as well. Due to this policy actions, 12-month inflation will gradually decrease and reach the target of 4% in the forecast horizon.

The CBA Board considers that as a result of the geopolitical developments, the uncertainty

in terms of macroeconomic perspective has significantly expanded. At the same time, the risks of inflation deviation from the projected trajectory are mainly balanced. Should the risks materialize in any direction, the Board stands ready to respond accordingly in fulfilment of the price stability objective.

Detailed information on the basis for determining the interest rate can be found in the Inflation Report to be published by March 29, 2022 (Monetary Policy Program for the first quarter of 2022).