

Refinancing Rate Set at 10.75 percent

2022-12-13

Refinancing Rate Set at 10.75%

At the December 13, 2022 meeting, the Board of the Central Bank of Armenia (CBA) decided to raise the refinancing rate by 0.25 pp to 10.75%.

In November 2022, the 12-month inflation decreased to 8.8%. The 12-month core inflation reduced as well, reaching 9.9%.

Global economic activity continue slowing. However, the inflationary environment in Armenia's main partner countries still persists driven by expanded demand and high inflation expectations. Therefore, the central banks of developed countries will continue to tighten monetary conditions in the near future. Consistent tightening of monetary conditions in partner countries will contribute to the weakening of global demand and some downward price adjustment in international commodity markets. Subsequently, the inflationary effects on the Armenian economy from the external sector are expected to weaken.

In the fourth quarter of 2022, high activity in the Armenian economy persists. Elevated external demand continues to contribute the higher growth in the services sector. At the same time, an increase in export and GDP potential is observable in the services and industry sectors. The growth of prices of imported food products is somewhat slowing down as a result of the contractionary monetary policy, the dram appreciation, as well as the effects spilled over from the external environment. This helps to mitigate the overall inflationary environment. Nevertheless, the impact of sustained high demand and high inflation expectations still plays a significant role in the behavior of inflation.

The Board of the CBA finds it reasonable to raise the policy rate. The Board of the CBA will be committed to taking adequate actions to stabilize inflation and offset any risk of deanchoring inflation expectations. According to the outlined monetary policy scenario, the 12-month inflation will gradually decline and stabilize around the 4% target in the medium run.

The Board of the CBA estimates that the risks of inflation deviation from the projected path 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 Inflation Report (Monetary Policy Program, Q4, 2022) to be published by December 27, 2022.