

Refinancing Rate Set at 7.0 percent

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At the August 3, 2021 meeting, the CBA Board decided to raise the refinancing rate by 0.5 pp, setting it at 7.0%.

Deflation of 0.8% was recorded in June 2021 compared with deflation of 1.4% registered in the same month of the previous year, in which case the 12-month inflation has increased to 6.5%. The 12-month core inflation continued accelerating too, reaching 7.8% at the end of June.

In the third quarter of 2021, the economic activity and aggregate demand in the main partner countries to Armenia are rapidly recovering, in line with the CBA projections. In positive expectations of restoring global demand on the back of large-scale use of coronavirus vaccines in the world, high inflationary conditions are persisting in international commodity and food markets. Driven by the abovementioned developments and a number of temporary factors, higher-than-expected inflation rates are observed in the partner countries. In such a situation, the CBA Board continues to anticipate mostly an inflationary impact from the external sector on the Armenian economy.

As current developments of 2021 show, the Armenian economic growth rates are somewhat exceeding the expectations, largely determined by more positive developments in agriculture and services. Aggregate demand is also recovering at high rates, which continues to be driven by persistently high private consumption growth, larger-than-expected volumes of remittances from abroad, and rapid growth of external demand. The latter is also reflected in continuous improvement of Armenia's external balance. The aforementioned demand factor developments mainly point to sustained inflationary effects.

In view of expected macroeconomic developments in the global economy and Armenia, and the inflationary impacts deriving from them, the CBA Board finds it appropriate to continue raising the policy rate. At the same time, committed to neutralizing the risks of accelerating inflationary expectations amid growing domestic demand, the Board considers the necessity of possible tightening of monetary conditions in the near future. Under such conditions, the 12-month inflation is projected to remain high up until the end

of the year, but will then gradually decrease and stabilize around the 4% target in the forecast horizon.

The CBA Board estimates that, amid persisting uncertainties over the economic outlook, the risks to inflation deviating from the projected mid-term path are balanced, and should they materialize, the CBA would stand ready to respond accordingly in fulfilment of the price stability objective.

You can read detailed information about setting the interest rate level in Press Release (Minutes on Interest Rate) to be published by August 17, 2021.