

Refinancing rate raised by 0.25 percentage point - 7.25 percent

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At the September 14, 2021 meeting, the CBA Board decided to raise the refinancing rate by 0.25 pp, setting it at 7.25%.

Inflation of 0.4% was recorded in August 2021 as opposed to deflation of 0.1% registered in the same month of the previous year, in which case the 12-month inflation has continued to increase amounting to 8.8% at the end of the month; the 12-month core inflation in August persisted around 8.0% as well.

In the third quarter of 2021, despite some slowing in the use of coronavirus vaccines around the world and new outbreaks of the pandemic in many countries, the economic activity and aggregate demand in the main partner countries to Armenia continue growing at faster-than-expected rates. In such a situation, influenced by a number of supply and demand factors, the environment in the international markets of raw materials and food products remains inflationary, just as the inflation in the partner countries runs a path which is higher relative to the previous forecasts. In this circumstance, mostly an inflationary impact is expected from the external sector on the Armenian economy.

The current economic growth developments in Armenia in 2021 are assessed as more positive than expected, owing to larger increases reported in agriculture and services. Aggregate demand is growing at a slightly faster-than-expected rate, which continues to be supported by strong private consumption growth, larger-than-expected remittances from abroad, and a positive external demand environment, while private investment growth remains relatively subdued. In such circumstances, the Board of the Central Bank estimates that the surpassing growth of private consumption over production capacity currently contributes to the expanding of the domestic inflationary environment.

The short-term acceleration of inflation in recent months is mainly due to rising seasonal food product prices, whereas the core inflation has been hovering at a level lower than anticipated. On the other hand, mainly inflationary effects continue coming from both the external and domestic economies, this is why the CBA Board finds it reasonable to raise

the policy rate. At the same time, the Board considers that consistent tightening of monetary conditions recently is having a significant impact for handling the surpassing demand, containing the inflation, and fulfilling the inflation target in the medium run. Under such conditions, it is forecasted that the 12-month inflation will remain high up until the end of the year, then in 2022 it will approach the 4% target and will stabilize around it in the medium term.

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

You can read detailed information about setting the interest rate level in Inflation Report (MP Program, Q3, 2021) to be published by September 29, 2021.