

Refinancing rate cut by 0.25 pp to 5.25 percent

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At the March 17 2020 meeting, the CBA Board decided to cut the refinancing rate by 0.25 pp to 5.25%.

There was a 0.2% deflation in February 2020 versus 0.6% inflation recorded in the same month last year, with a 12-month deflation rate of 0.5%.

The continuous spread of coronavirus worldwide is having a significant negative impact on the global economy and economic growth in partner countries. Uncertainties in the world financial markets have increased substantially, driving the stock exchange indices of the developed countries to continued fall, commodity prices to decline, exchange rates of developing countries to depreciate, the impact of which on the Armenian economy is estimated to be deflationary.

According to the CBA estimates, these effects reflected in Armenian economy through simultaneous contraction of aggregate supply and demand. The main impact is incurred by the services sector, especially the sub-sectors related to tourism and entertainment. According to the baseline scenario of the CBA, the economic growth will slow down notably in the short run, but will not affect Armenia's long-term economic potential outlook.

Considering the developments of the economy, the CBA Board estimates that the role of monetary policy in current situation is limited, as the toolkit of monetary policy is not able to address the development of specific sectors of the economy and the increase of real economic uncertainty caused by healthcare situation. In this circumstances, it is vital to preserve macroeconomic stability of the country, which would allow to secure the effectiveness of target measures for economic policy the Government is developing. The CBA Board finds that thanks to low-inflationary policy pursued in recent years the inflation expectations are now sufficiently anchored. Therefore, given the CBA's price stability objective and in view of current inflationary developments, global economy future impact and current uncertainties, the Board believes that the refinancing rate needs a 0.25 pp cut. As a result, according to the baseline scenario, inflation will remain relatively low in

the upcoming months, gradually approaching the target value.

At the same time, the CBA monitors the economy and financial markets on a daily basis, considers various alternative scenarios and is ready to react to any developments in the situation ensuring price stability in the Republic of Armenia.

Detailed information underlying the setting of the interest rate can be found in Inflation Report (Monetary Policy Program, Q1, 2020) to be published by March 31 2020.