

Refinancing rate cut by 0.25 pp to 5.0 percent

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At the April 28, 2020 meeting, the CBA Board decided to cut the refinancing rate by 0.25 percentage points, setting it at 5.0%.

There was 0.5% inflation in March 2020, compared to that of 0.1% registered in the same month of the previous year, with the 12-month deflation rate having reduced to 0.1%.

The spread of coronavirus and resultant healthcare measures to fight it are having a major negative impact on the global economy, including the economic growth in partner countries to Armenia, and have added to the volatility of commodity prices. Though joint and concerted efforts by central banks of leading countries have weakened the volatility in financial markets, uncertainties and risks remain high. All this is estimated to continue to leave a deflationary effect on the Armenian economy.

On the back of adverse impact of the coronavirus epidemic on the Armenian economy, a decline in economic activity was observable in almost all sectors of the economy in March 2020, compared to the same period last year. According to the CBA, the decline in economic activity will deepen in the second quarter due to reduced supply and demand. There is estimation that aggregate demand will remain sluggish in the near future, which will be partly compensated by the government's offered package of stimulus designed for alleviating social and economic effects. At the same time, uncertainties related to the timing of overcoming the pandemic and economic recovery have increased, and longer-term changes in the structure and outlook of the Armenian economy will only be possible to assess after such uncertainties will diminish.

Given the current and projected external and domestic sector developments, weakening demand, currently low inflation environment and stabilizing financial markets, the CBA Board considers it appropriate to add to the monetary stimulus by reducing the refinancing rate. The Board also believes that, in the current situation, keeping the monetary stance expansionary also in the medium term will be needed. As a result, inflation in the short term will remain low, approaching the target only at the end of the forecast horizon.

Uncertainties about short-term and long-term economic developments are high at the moment, which the Central Bank is also trying to take into account in its decisions. At the same time, the assessment is that downside risks to inflation deviating from its path are prevailing due to both external and domestic factors. In the event of emergence of any risks, the CBA is ready to adjust the policy accordingly to maintain the price stability in the medium term.

Detailed information underlying the setting of the level of interest rate is available in Press Release (Minutes on Interest Rate) to be published by May 13, 2020.