

Refinancing rate reduced by 0.5 percentage points to 4.50 percent

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At its June 16, 2020 meeting, the Board of the Central bank of Armenia decided to cut the refinancing rate by 0.5 percentage points to 4.5%.

There was 0.1% deflation in May 2020, compared to 0.4% deflation recorded in the same month of the previous year, in which case the 12-month inflation has increased, amounting to 1.2%.

Due to the coronavirus pandemic, the world economy is expected to register one of its biggest historic downturns. Moreover, the recovery of the world economy is estimated to be slower than expected, and uncertainty over the further course of the pandemic persists. At the same time, commodity prices show signs of stabilization and recovery, owing to the cautiously optimistic expectations for Chinese economy. It is predicted that the external sector will continue having a deflationary effect on the Armenian economy.

According to the Central Bank estimates, the decline in economic activity in Armenia in the second quarter will deepen driven by both supply and demand factors. On the supply side, the slowdown is mostly caused by the decline in construction and services, and the decrease in demand will be reflected mainly in the reduction of private expenditures in terms of both consumption and investment. Despite the stimulative impact of the fiscal policy compared to the previous year, the impact of declining private demand will prevail, which is largely determined by persisting uncertainties related to the pandemic.

Given the slowdown of the recovery of external and domestic demand, the current low inflationary environment and the adverse impact of increased uncertainty, the Board of the Central Bank deems it appropriate to reduce the refinancing rate by a wider step. The Board estimates that, in the current situation, maintaining the expansionary monetary policy stance in the medium run will be needed, under which the inflation will remain low in the short term, approaching the target only at the end of the forecast horizon. The Board also reckons that, in the current situation, implementing a more expansionary fiscal

policy along with a stimulative monetary policy is key to restoring aggregate demand.

The Board estimates that the risks of inflation deviating from the projection are still on the downside due to the possible slow recovery of demand and the likely persistence of uncertainty. Should the risks materialize, the Central Bank will stand ready to adjust the policy as needed, ensuring price stability in the medium run.

Detailed information underlying the decision on the level of interest rate is available in the Inflation Report (Monetary Policy Program for the second quarter of 2020) to be published on June 30, 2020.