

Refinancing rate left unchanged – 4.50 percent

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At the July 28 meeting, the CBA Board decided to keep the refinancing rate unchanged at 4.5%. In June 2020 inflation stood at -1.4%, compared to -1.9% in the same month of the previous year.

As a result, the 12-month inflation increased to 1.7%. At the same time, the 12-month core inflation remained at 0.8%, which is the level seen in the previous month.

In the external sector, the global economy and the external demand significantly contracted during the second quarter, which was in line with the latest monetary policy program. At the end of the quarter, prices in major commodity markets were slightly higher than anticipated. At the same time, both advanced and developing countries have continued to pursue expansionary monetary policy and highly expansionary fiscal policy. As expected, there will be no significant inflationary impact on the Armenian economy from the external sector.

In the second quarter, the contraction of both economic activity and domestic demand caused by the pandemic was in line with the Central Bank's projections. The decrease in output was mainly in the construction and services sectors, while the decline in the industry was less than expected. Due to the high uncertainty related to the timing of the resolution of the pandemic, domestic demand is expected to remain weak in the near term, despite some positive contribution from the higher-than-anticipated inflow of remittances. At the same time, it is estimated that the current fiscal policy, in particular, the recent legislative changes in profit taxation, will have a positive impact on both supply and demand.

Taking into account that the actual developments were in line with the forecasts of the latest monetary policy program, the CBA Board deems the current monetary conditions sufficiently expansionary. At the same time, the Board estimates that in the current situation it will be necessary to maintain the expansionary position through the medium term, which will allow inflation to gradually increase and stabilize at the target level by the end of the forecast horizon. The Board agrees that expansionary fiscal policy, especially through the potential-growth-enhancing government expenditures, in the current situation

is also essential for the recovery of aggregate demand.

The Board of the CBA assesses that due to the possible slowdown in the recovery of demand and probable extension of uncertainty, the risks to inflation are skewed downwards. In case such risks are realized, the Central Bank is ready to respond accordingly to ensure price stability in the medium term.