

Refinancing rate cut by 0.25 pp to 4.25 percent

2020-09-15

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At the September 15 meeting, the CBA Board decided to decrease the refinancing rate by 0.25 pp to 4.25%.

Inflation in August 2020 stood at -0.1%, compared to -0.4% in the same month of the previous year. As a result, the 12-month inflation increased to 1.8%. At the same time, the 12-month core inflation somewhat increased to 1.1%.

The global economy in the third quarter is showing signs of gradual recovery. The persistently high uncertainty related to the final resolution of the pandemic will, however, take its toll on aggregate demand and economic activity of Armenia's main trading partners delaying the recovery. Under such conditions, central banks will continue pursuing expansionary monetary policy. As a result, although low inflationary environment prevails in the commodity markets, the Board does not expect inflationary pressures from the external sector.

In the first half of 2020, economic growth was in line with the Central Bank's projections. In July, however, the lower-than-expected contraction of economic activity was driven by services sector. At the same time, the contraction of private expenditures in the first half of 2020 was more than expected, which was partially compensated by the expansionary fiscal policy. Taking into account these developments, as well as precautionary behavior of consumption and investment due to the high uncertainty related to the resolution of pandemic, the internal demand and economic activity in the coming quarters will recover at a slower-than-expected pace.

Taking into account the low inflationary environment, as well as the somewhat delayed recovery of external and internal demand the CBA Board decided to continue to ease monetary conditions by decreasing the policy rate. Under the expected economic developments, the CBA Board is inclined to continue the monetary policy easing and maintain the expansionary stance in the medium term. This will gradually increase inflation and will stabilize it near the target at the end of the forecast horizon.

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