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In the January 29, 2019 meeting, the Board of the Central Bank of Armenia (CBA) decided to cut the refinancing rate by 0.25 pp to 5.75%.

There was 1.5% inflation in December of 2018, in which case the 12-month inflation rate amounted to 1.8%. Prices of seasonal products have shaped at a relatively low level, with some decline in core inflation. As a result, a low inflationary environment will persist over the upcoming months while the 12-month inflation will run below the lower part of the confidence band.

Global economic growth rates are signaling some weakening in both leading and developing countries, and the central banks of leading countries continue to tighten their monetary policy conditions. Accordingly, softening inflationary environment is further observable in the international markets of basic commodities, so the Board of the CBA considers that no inflationary pressures from the external sector are likely in the coming months.

The Board admits that the economic activity in late 2018 was still sluggish, while the year's economic growth is expected around 5.0%. The weakening of aggregate demand is largely due to a contractionary stance of the fiscal policy and slowing growth in private spending. The Board reckons that the low inflation is partly of a structural nature, driven by long-term economic and public policy changes, which also contributes to maintaining the purchasing power and anchoring the inflationary expectations.

In consideration of the situation mentioned above, the Board finds it reasonable to increase the extent of expansionary monetary conditions by reducing the refinancing rate by 0.25 pp and using the longterm liquidity injection toolkit. At the same time, in view of the anticipated macroeconomic developments, to leave monetary conditions expansionary for a longer period of time will be needed for maintaining price stability in the medium run. As a result, the expectation is that inflation will still be running below the lower part of

the confidence band and stabilizing around the 4% value at the end of forecast horizon.

Risks to fulfillment of the inflation target in forecast horizon are assessed still downside, due to both external and internal factors. The CBA keeps a watchful eye on macroeconomic developments, if risks emerge, it will adjust the monetary policy directions accordingly, while ensuring the price stability.

Detailed information that underlies the decision on setting of the interest rate will be available in Press Release (Minutes on Interest Rate) to be published by February 12, 2019.