

The Board of the CBA left the refinancing rate unchanged 5.75 percent

2019-07-30

The Board of the CBA left the refinancing rate unchanged 5.75%

In the July 30, 2019 meeting the Board of the Central Bank of Armenia decided to leave the refinancing rate unchanged, at a 5.75% level.

There was 1.9% deflation in June of 2019 compared with that of 1.6% registered in the same period of the previous year, in which case the 12-month inflation has reduced to 2.5%, determined by a much deeper seasonal fall in prices of agricultural products. In the meantime however, core inflation has increased to some extent over the month.

In the external sector, global economic growth keeps slowing and demand slackening, and the central banks of the main partner countries to the Republic of Armenia will pursue a policy of easing monetary conditions in the near future. In this situation, the inflation environment in international markets for basic commodities and food products remains weak, and the Board of the Central Bank estimates that inflationary pressures from the external sector generally are not likely.

The Board states that growth rates of economic activity remained strong during the second quarter, as was expected, which is driven by private consumption growth. The impact of the second quarter's fiscal policy on the domestic demand is estimated notably contractionary, too. There is anticipation that in the second half of the year it will be expansionary and, consequently, the fiscal policy's contractionary impact on aggregate demand will reduce markedly, according to the year's results.

In this circumstance, the Board prefers to letting the inflation recover gradually and finds it appropriate to sustain current monetary conditions by leaving the refinancing rate unchanged. At the same time, in view of the anticipated macroeconomic developments, to keep the policy expansionary for a long while will be needed in fulfillment of the mid-term inflation target. As a result, the expectation is that the inflation will run below the target in the coming months but will stabilize around the target in the medium run.

It should be noted that risks to inflation deviating from the projection path are mostly

downside, and these depend on the global economic developments and how the state budget will perform further. The Central Bank will respond to the emergence of any of such risks and developments adequately while maintaining price stability in the medium run.

Detailed information that underlies the decision on setting the interest rate will be available in Press Release (Minutes on Interest Rate) to be published by August 13, 2019.