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In the September 10, 2019 meeting the Board of the Central Bank of Armenia decided to reduce the refinancing rate by 0.25 pp to 5.5%.

There was 0.4% deflation in August of 2019 as opposed to 0.6% inflation registered in the same period of the previous year, which continued to be largely driven by a deeper seasonal decline in prices of agricultural products. As a result, the 12-month inflation rate further reduced, reaching 0.6% at the end of the month. Unlike headline inflation, core inflation has been relatively stable in recent months, fluctuating around 1.5%.

In the external sector, trends of notable slowdown in economic growth, demand and inflation are observable amid increasing uncertainty over global economic outlook, and these trends are also evident in international commodity markets. Based on the aforementioned, the Board of the Central Bank estimates that it generally anticipates deflationary pressures from the external sector.

The Board states that economic activity in Armenia remained high in the third quarter, which is mainly driven by the growths in services and manufacturing in terms of supply and the growth of private consumption in terms of demand. In the meantime, the fiscal policy is further having a contractionary impact on aggregate demand.

Given the deflationary environment in the external sector and the stance of the fiscal policy, and in view of further preference to a gradual recovery of inflation, the Board of the Central Bank finds it reasonable to add to the monetary stimulus by reducing the refinancing rate, as well as is considering measures for directing financial resources to the development of the economy's potential. The Board also finds that in view of anticipated macroeconomic developments, keeping the policy expansionary in the near future will be needed in order to fulfil 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.

At present, downside risks to inflation deviating from the projection path are prevailing and mainly depend on the developments in the external sector. In the event such risks emerge, the Central Bank will respond adequately while maintaining price stability in the medium run.

Detailed information that underlies the decision on setting the interest rate will be available in Inflation Report (Monetary Policy Program, Q3, 2019) to be published by September 24, 2019.