

Refinancing rate left unchanged 4.25 percent

2020-10-27

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At the October 27 meeting, the CBA Board decided to keep the refinancing rate unchanged at 4.25%.

Inflation in September 2020 stood at -0.2%, compared to 0.2% in the same month of the previous year. As a result, the 12-month inflation amounted to 1.4%. At the same time, the 12-month core inflation somewhat increased to 1.3%.

Despite some positive developments in the global economy in the third quarter, it is estimated that in September-October, in light of the new pace of coronavirus spread and resulting high uncertainties, the recovery of global demand and economic activity will be somewhat delayed. At the same time, a weak inflationary environment persists in the commodity markets. Under such conditions, central banks of main partner countries will continue pursuing expansionary monetary policy. Hereby, the CBA Board estimates that no significant inflationary impact is expected from the external sector on the Armenian economy.

Low economic activity prevailed in Armenia in the third quarter and a 7.5% decrease in economic activity compared to the same month of the previous year was registered in September, which was mainly a result of a significant reduction in the services sector. Despite the expansionary fiscal policy, domestic demand was slightly weaker than expected during the quarter, mainly due to a deeper reduction in private consumption. The large-scale military attack by Azerbaijan along the entire line of contact of Artsakh (Nagorno Karabakh) on 27th September, as well as the incomparably rapid spread of the coronavirus in the first half of October, created a negative environment for both supply and demand developments. It is estimated that along with a somewhat reduction in output, uncertainty regarding economic growth outlook will increase, thus delaying the recovery of economic activity and domestic demand. In this situation, the Government outlines the implementation of a sizable fiscal expansion, mainly due to the increase in military spending and expenses aimed at overcoming the pandemic.

Taking into account the above-mentioned actual and expected macroeconomic developments, as well as the fact that the country's risk premium has increased to some

extent during the military actions and certain risks of inflation destabilization have arisen, the CB Board considers it convenient to leave the refinancing rate unchanged. Under these circumstances, inflation will gradually increase and stabilize near the 4% target at the end of the forecast horizon.

The Board estimates that the risks of inflation deviating from the projection are balanced. In case risks materialize, the Central Bank is ready to respond accordingly to ensure price stability in the medium term.

Detailed information underlying the decision on the level of interest rate will be available in the Press release (Minutes of the CBA Board meeting), to be published on 10th of November 2020