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At the June 26th of 2018 meeting, the Board of the Central Bank of Armenia (the CBA) decided to leave the refinancing rate unchanged, at the level of 6.0%.

There was 1.0% deflation in May of 2018 against that of 0.2% reported in the same month of the previous year, and the 12-month inflation rate continued reducing, amounting to 1.6% at the end of the month. The shaping of low inflation environment owed primarily to the decline in seasonal prices as a result of early seasonality. At the same time, core inflation was also somewhat lower from the Central Bank expectations.

In the external sector, trends for improving global economic growth continued while developments in the international commodity markets are slightly more inflationary than anticipated. The acceleration of inflation in principal trade partner countries and other partner countries also determines the current and expected tightening of monetary conditions, which has been reflected in the increase in emerging country risks and raising interest rates. In view of such developments, the Board of the Central Bank anticipates some more inflation risks from the external sector.

The Board notes that economic activity in the second quarter of 2018 was higher than anticipated, driven by a high productivity growth reported in construction and services sectors. On the demand side, it is mainly expressed by high growth rates of investments, whereas the growth of private consumption was relatively low amid the slowdown in growth rates of money transfers from abroad. In this case, the Board considers that the impact of aggregate demand on inflation has been weaker than expected. The latter was reflected in shaping lower levels of both core inflation and inflationary expectations.

Taking the abovementioned into account, as well as the fiscal policy's more-than-expected contractionary impact on the economy, the Board of the Central Bank finds it appropriate that current monetary conditions will be maintained, leaving the refinancing rate unchanged on the back of rising world interest rates. In the meantime, the current low inflation environment notwithstanding, the Board reckons that a gradual offsetting of

expansionary monetary conditions in the mid-term will be needed in fulfillment of the inflation target. As a result, the expectation is that inflation will still remain low in the coming months, shaping within the confidence band in the second half of the year and stabilizing around the 4% target in the medium run.

Should the risks to economic growth outlook and to the inflation deviating from its recovery path materialize, the Central Bank 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 July 10, 2018.