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At the August 14th 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 1.2% deflation in July of 2018 against that of 2.6% reported in the same month of the previous year, and the 12-month inflation rate somewhat increased, amounting to 2.3% at the end of the month. At the same time, core inflation reduced to some extent in July, still persisting at a relatively high level. The Board of the CBA considers that the 12-month inflation rate will approach the target in the upcoming months, fluctuating within the lower part of the confidence band.

In the external sector, trends for improving global economic growth continued and inflationary developments in international commodity markets are in line with such developments. As the Board of the CBA estimates, there has been an increase in financial market volatilities in a number of countries of the region amid the imposed US trade restrictions and sanctions, which currently does not contain significant risks for Armenia's financial markets; yet in the emergence of any risk, the CBA will react adequately.

The Board notes that economic activity in June of 2018 recovered owing to the accelerating growth in the processing industry and agriculture, following the slowdown at the beginning of the second quarter. The Board estimates that aggregate supply will gradually weaken due to the contractionary pace of fiscal policy, which is reflected in the considerable cost savings in relation to the planned ones.

Taking into account the expected developments – a slowdown in domestic demand and weak inflation environment in the outside world – the CBA finds it appropriate to maintain expansionary monetary conditions by leaving the refinancing rate at the current level. At the same time, in view of the anticipated macroeconomic developments and the absence of such risks, keeping the monetary environment expansionary in the forthcoming period too is important in terms of fulfillment of the inflation target, on condition that it gradually eliminates in the medium run. As a result, the expectation is that inflation will remain

within the lower part of the confidence band, stabilizing around the 4% target at the end of the forecast horizon.

Should there be risks to economic growth outlook and to the inflation deviating from its recovery path, the CBA 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 Inflation Report (Monetary Policy Program, Q3, 2018), to be published by August 28, 2018.