

The Board of the CBA left the refinancing rate unchanged 6.0 percent

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In the December 25, 2018 meeting, the Board of the Central Bank of Armenia (CBA) decided to leave the refinancing rate unchanged: at the level of 6.0%.

There was 1.0% inflation in November of 2018 against that of 2.0% registered in the same month of the previous year, which was mainly due to a relatively low growth of prices of seasonal products. In this circumstance, the 12-month inflation rate has reduced to 1.8% at the end of the month. The core inflation rate has also slowed down to some extent. The Board of the CBA estimates that the inflation environment will remain low in the upcoming months and the 12-month inflation rate will be running slightly below the lower part of the confidence band.

Global economic growth trends continued evolving in line with the forecasts, under which the central banks of leading countries further tightened their monetary policy conditions. This was concomitant with weakening of the inflation environment in the international markets of basic commodities, and the Board of the CBA considers that no inflationary pressures from the external sector are likely in the coming months.

The Board notes that aggregate demand remained relatively weak over the second half of the year due to persisting contractionary stance of the fiscal policy and some weakening of private spending. On the other hand, the low inflation environment amid sluggish private consumption growth rates has contributed to maintaining the real purchasing power and anchoring the inflationary expectations in the country.

In the situation described above, the Board of the CBA finds it appropriate to keep the refinancing rate at the current level which is estimated to be more expansionary, taking into account the interest rate rise in partner countries. At the same time, in view of the anticipated macroeconomic developments, to leave monetary conditions expansionary for a longer period of time will be needed for maintaining price stability in the medium run. As a result, the expectation is that inflation will still be running below the lower part of the

confidence band and stabilizing around the 4% value at the end of forecast horizon.

Risks to fulfillment of the inflation target at the end of forecast horizon are still assessed to be downward, due to external and internal factors. However, should there be risks to the inflation and economic growth outlook deviating from the prediction scenario, 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 Press Release (Minutes on Interest Rate) to be published by January 16, 2019.