

The Board of the CBA lowered the refinancing rate by 0.25 percent

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At the February 16, 2016 meeting the Board of the Central Bank of Armenia decided to lower the refinancing rate by 0.25 percentage point to 8.5%.

In January of 2016 inflation was 2.2% compared to 2.5% recorded in the same month of the previous year. In the meanwhile the 12-month inflation rate fell slightly, amounting to -0.4% at the end of the month. The low level of inflation is almost entirely due to the decrease in agricultural product prices against the same period last year and the deflationary impact partly transmitted on domestic prices from the external sector.

Trends observable in the external sector recently did not change significantly: the global economy grew at a relatively slow pace, while prices in international commodity markets continued reducing. The Board of the CBA estimates that this trend will persist in the coming months, which will continue to have a deflationary impact on domestic prices.

Economic growth in 2015 is estimated to be within 3.2%, with agriculture and mining sectors remaining the main drivers to it. The domestic demand remains weak, although the Central Bank and the Government carried out expansionary policies during the year. The Board estimates that significant inflationary pressures from the domestic economy and external sector in the short run are not expected, and a deflationary environment will be maintained. In the current economic situation, a low level of inflation will contribute to maintaining the purchasing power of incomes and gradual decline in inflation expectations.

In this circumstance, gradual easing of monetary conditions by the Board of the CBA is appropriate on the premise of relatively high inflation expectations and the risk to downside price rigidity and increasing dollarization. In the upcoming months, the Board of the CBA notes, the inflation environment will remain low; it then will expand gradually driven by considerable loosening of the monetary conditions since 2015 to approach the target in the forecast horizon.

The Board of the CBA will look to further easing of the monetary conditions, as expected economic developments unfold and no additional risks emerge in external and internal sectors.

More information on the interest rate will be available in Inflation Report (Monetary Policy Program, Q1, 2016) to be published on February 26, 2016.