

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

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At the March 29, 2016 meeting the Board of the Central Bank of Armenia decided to reduce the refinancing rate by 0.25 percentage point to 8.25%.

In February of 2016 deflation was 1.4% compared to 0.1% recorded in the same month of the previous year. In the meanwhile, the 12-month inflation rate continued falling; at the end of the month it amounted to -1.7%. Monthly deflation was entirely due to the decrease in prices of imported food products.

In the external sector, trends of slow global economic growth were maintained while international commodity markets remained deflationary. The Board of the CBA estimates that the deflationary impact on domestic prices, transmitted from the external sector, will persist in the upcoming months.

The Board notes that in January-February, relative to the same reference period last year, the economic activity indicator has slightly exceeded expectations, amounting to 4.7%, with main contribution of strong growths in industry and services. The domestic demand is still sluggish, although the Central Bank and the Government carried out expansionary policies during the first quarter of the year. At the same time, a significant increase in external demand for domestic goods and services observed at the beginning of the year resulted in the increase of exports and completely offset the impact of weak domestic demand on aggregate demand. Therefore, the low inflation is totally a result of deflationary effects spilled over from international markets of commodities and food products, which further contributes to maintaining the purchasing power of incomes, reduction of costs of firms and gradual decline in inflation expectations.

In this circumstance, the Board believes that abrupt easing of monetary conditions at the end of the last year is by and large sufficient to offset the deflationary pressures during the year. However, the Board now considers it appropriate to continue gradual easing of monetary conditions, which will drive the inflation environment to expand gradually starting from the second half of the year, and the 12-month inflation rate will 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 domestic sectors.

More information on the setting of interest rate will be available in Press Release (Minutes of Interest Rate) due on April 8, 2016.