

The Board of the CBA lowered the refinancing rate by 0.5 percent

2016-05-17

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

At the May 17, 2016 meeting the Board of the Central Bank of Armenia decided to reduce the refinancing rate by 0.5 percentage point to 7.75%.

In April of 2016 deflation was 0.3% compared to 0.4% recorded in the same month of the previous year. At the end of the month the 12-month inflation rate amounted to -1.9%.

Global economy continues growing at slow rates yet relative stability came to replace deflationary patterns in international commodity markets. However, the Board of the CBA estimates that the external sector will continue transmitting deflationary impact on domestic prices in the upcoming months, which is expected to phase out in the second half of this year.

The Board of the CBA notes that in January-March, relative to the same reference period last year, the economic activity has increased considerably. This was mainly due to the industry and services sectors where developments were more positive than anticipated. Positive developments are also observed in the domestic demand, reflecting the effect of expansionary policies carried out by the CBA and Government of Armenia in previous months. In the meantime, the tradable sector of the economy has expanded and posted high growth rates. In view of the above-mentioned developments, the CBA's expectations of economic growth for 2016 were adjusted upside.

At the same time, the Board of the CBA admits that inflation expectations have declined as a result of consistent monetary policy of the CBA. On top of the policy influence a reduction in the natural gas tariff as an additional factor is now expected, based on which the Board finds it reasonable to easing the monetary conditions in a greater stride. Such a policy will prompt gradual expanding of the inflation environment since the second half of 2016 while the 12-month inflation rate will return to the target in the forecast horizon.

The Board of the CBA will look to further easing of 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 Inflation Report (Monetary Policy Program, Q2, 2016) to be published on May 27, 2016.