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At the August 16, 2016 meeting, the Board of the CBA decided to cut the Refinancing Rate by 0.25 pp, setting it at 7.25%.

Deflation in July of 2016 was 2.3%, mainly due to the decrease in prices of seasonal agricultural products and reduced gas tariff, under which circumstance the 12-month inflation rate reached -1.3% at the end of the month.

A slow pace of global economic growth and relative stability in international commodity markets persisted. However, minor inflationary trends were observable in respect of some commodities. The CBA Board estimates that significant inflationary effects from the external sector are not likely in the upcoming months. According to the CBA assessment, the processes in the EU did not have a significant impact on the Armenian economy.

The CBA Board notes that higher-than-expected economic activity was observable in Armenia, based on the H1, 2016 results, against the same reference period of the previous year, which was largely determined by positive developments in the tradable sector on the back of current external demand. At the same time, consistent implementation of monetary policy by the CBA has continuously reduced inflation expectations thus contributing to the dropping, as much as possible for the time, in the long-term market rates. The latter secured a real ground for gradual recovery in private consumption and domestic demand on the basis of the 2016 results.

The CBA Board anticipates a further low inflation environment in the upcoming months while deflation will decelerate considerably at the end of the year. In that situation, the Board considers it reasonable to ease the monetary conditions under which circumstance the deflationary environment will phase out gradually and the 12-month inflation rate will return to its target in the forecast horizon.

The CBA Board estimates that the deflationary risks are somewhat prevalent in the short run, and if these materialize, the CBA will react accordingly by fulfilling the inflation target

in the medium run.

More information on the setting of interest rate will be available in Inflation Report (Monetary Policy Program, Q3, 2016) to be published on August 26, 2016.