

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

2016-09-27

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

At the September 27, 2016 meeting, the Board of the CBA decided to cut the Refinancing Rate by 0.5 pp, setting it at 6.75%.

August posted price deflation of 0.5% compared to 0.1% of inflation recorded in the same month of the previous year. The 12-month inflation rate has reduced in the meantime, amounting to -1.9% at the end of the month. The CBA estimates that deflationary environment will remain low in September too, and then it is expected to soften notably by the end of the year.

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 inflationary effects from the external sector are not likely in the upcoming months.

The CBA Board notes that the figures published in the third quarter of 2016 point to worsened growth outlook after high economic activity recorded in the first half of 2016. As a result, the CBA revised its expectations of developments in domestic demand. In this situation, the CBA estimates that external demand, which is still relatively strong, is no longer fully offsetting weak domestic demand, and this brings about risks to inflation indicator moving downward from the projected value.

In the light of the inflation environment still persisting at low in the short run, significantly reduced inflationary expectations and increasing deflationary risks because of weak demand, the CBA Board finds it reasonable to continue easing the monetary conditions. This will help the deflation environment to largely phase out by the end of the year and the 12-month inflation rate to return to its target in the forecast horizon.

The CBA Board admits that although the deflationary risks are prevalent in the short run, there are no significant risks to fulfilling the inflation target in the medium-term

perspective.

More information about interest rate setting will be available in Press Release (Minutes on Interest Rate) due on October 7, 2016.