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At the November 15, 2016 meeting, the Board of the CBA decided to cut the Refinancing Rate by 0.25 pp, setting it at 6.5%.

October posted price inflation of 0.5% as opposed to 0.4% of deflation recorded in the same month of the previous year, whereas the 12-month deflation rate amounted to 0.9%. According to the CBA estimates, the deflationary environment will keep on softening up until the end of the year.

A slow pace of global economic growth persisted while some inflationary patterns were observable in international commodity markets. The CBA Board estimates, however, that significant inflationary effects from the external sector are not yet likely in the upcoming months.

The CBA Board notes that economic activity continues to slow down mainly due to supply factors, such as slowing growth rates in industry and agriculture sectors, whereas expansionary monetary and fiscal policies implemented in the period 2015-2016 largely contribute to the recovery of domestic demand. In the first quarter of 2017 gas and electricity tariffs are expected to reduce; this is a supply factor and would lead to some decrease of prices only in the short run. However, the CBA Board believes that deflation risks in the medium-term remain, which are now added by the 2017 fiscal policy factor. In this case, easing of monetary conditions to a certain extent is still appropriate.

Thus, in the light of continued expansionary monetary policy, the deflationary environment will largely phase out in the upcoming months, and the 12-month inflation rate will return to its target in the forecast horizon.

At the same time, if additional risks emerge, the CBA will react to them accordingly by fulfilling the inflation target in the medium term.

More information on the setting of interest rate will be available in Inflation Report

(Monetary Policy Program, Q4, 2016) to be published on November 25, 2016.