

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

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At the December 27, 2016 meeting, the Board of the CBA decided to reduce the Refinancing Rate by 0.25 pp, setting it at 6.25%.

Inflation in November was 1.0% compared with 0.6% of inflation in the same month of the previous year, and the 12-month deflation rate continued reducing to 0.6%. According to the CBA estimates, the deflationary environment will persist in the forthcoming months.

A slow pace of global economic growth persisted while some inflationary patterns were observable in international commodity markets. The CBA Board estimates that significant inflationary effects from the external sector are not yet likely in the upcoming months. However, there are some inflationary risks related to the raising of the policy rate by the US Federal Reserve and how it would affect the developing countries.

The CBA Board notes that economic activity continues to slow down mainly due to supply factors, such as more-than-expected decline in the agricultural sector. On the other hand, the domestic demand has been rebounding largely thanks to the expansionary monetary and fiscal policies implemented in 2015-2016. Yet, some deflationary risks outlined in the fourth quarter's monetary policy program, including a decline in inflation expectations and anticipated reduction in electricity tariff in February, are materializing. This makes persistence of inflation within the lower bound of the confidence band most likely for 2017. In this case, the CBA Board considers it reasonable to loosen monetary conditions for another time.

The CBA Board believes that implemented monetary policy has triggered sufficient incentives to overcome the deflationary environment in 2017 and fulfil the inflation target in the forecast horizon.

The CBA Board estimates that interest rates have reduced substantially while conventional monetary policy capabilities are now limited. Yet, the CBA remains committed to its primary goal of ensuring price stability and, if necessary, it will react

accordingly by using its toolkit to fulfil the inflation target in the medium term.

More information on the setting of interest rate will be available in Press Release (Minutes on Interest Rate) due on January 13, 2017.