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At the meeting dated August 11, 2015, the Board of the Central Bank of the Republic of Armenia decided to reduce the Refinancing Rate by 0.25 pp and set it at 10.25%.

There was 2.2% of deflation in July of 2015 compared with 0.9% of deflation recorded in the same month last year, and the 12-month inflation rate decreased to reach 4.2% late in the month.

Actual developments show that slower-than-expected global economic growth persisted in the external sector. Under this circumstance, world commodity markets further saw deflationary patterns. Based on these developments, as well as in anticipation of weak global demand and excess supply in certain commodity markets in the upcoming months, the Board of the Central Bank admits that inflationary effects from the external sector are not likely.

The Board of the Central Bank states that growth rates of economic activity exceeded the expectations during the second quarter of 2015. In the period January-June 2015, relative to the same reference period last year, the economic activity indicator has amounted to 4.2%. This was attributable to higher growth rates recorded in agriculture in the first place and industry in part. Notwithstanding high growth rates in export of agricultural product and that these trends would be persisting in the near future, positive developments in the agricultural sector will lead to lower prices of agricultural products in comparison with the same period last year. The shaped low inflationary environment will be in part offset by more stimulating fiscal policy implementation. At the same time, the inflationary effect that was formerly expected to come from electricity price increase since August 1, 2015 now is out of consideration. In the light of these developments, the Board estimates, the 12-month inflation rate will reduce and stay within the lower bound of the confidence band over the second half of the year. This can be a reason for the Central Bank to consider loosening the monetary conditions.

Yet, risks in the external sector and domestic economy are persisting. If such risks

materialize, the inflation environment may expand. This may, in turn, prompt the Central Bank to adjust the directions of monetary policy appropriately, while fulfilling the inflation target in the medium-term perspective.

Detailed information on the setting of the interest rate will be available in Inflation Report (Monetary Policy Program, 3rd quarter 2015) due on August 21, 2015.