

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

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On the 12th August 2014 meeting, the Board of the Central Bank decided to reduce the refinancing rate by 0.25 percentage point to 6.75%.

There was 0.9% of deflation in July 2014 against 0.4% of inflation recorded in the same month last year; in the meanwhile, the 12-month inflation rate has dropped to 0.4%. The Board believes that in the coming months the 12-month inflation rate will gradually increase and, starting from Q1 2015, is expected to stabilize around its target.

The Board notes that geopolitical developments have brought in more uncertainties in the external sector, associated with economic prospects in partner countries, yet significant inflationary pressures from the external environment are not likely.

The Board estimates that domestic and foreign demand remained sluggish in Q2 2014, which contributed to a low level of inflation. The increase in electricity tariff since August as well as stamp duty to be introduced on a range of products starting from the fourth quarter this year will somewhat expand the inflationary environment. However, in the short run, the 12-month inflation rate will remain low, somehow closer to the lower bound of the target at the end of the year. Easing of monetary conditions, coupled with expansionary fiscal policy expected to carry out starting from the second half of 2014, will lead to the expansion of aggregate demand and rebounded inflation rates during 2015.

The Board agrees that economic developments in external and domestic sectors may be such that any further adjustments in the directions of the monetary policy are possible whilst making sure the inflation target remains attainable in the forecast horizon.

More information about the interest rate decision will be available in the Inflation Report (Monetary Policy Report Q3, 2014) due on 22 August 2014.