

The Board of the CBA raised the refinancing rate by 1.75 percent

2014-12-23

The Board of the CBA raised the refinancing rate by 1.75%

At the December 23, 2014 meeting, the Board of the Central Bank decided to raise the refinancing rate by 1.75 pp to 8.50%.

Inflation in November 2014 was 1.3% compared to 0.9% recorded for the same month last year, and the 12-month inflation amounted to 2.6%.

In the external sector, latest developments included accelerating growth rates of the U.S. economy, which led to expectations for further increase in interest rates in the U.S.A. This triggered a capital flow from developing countries to the U.S.A., resulting in slowdown of economic growth rates and depreciation of currencies in main developing countries. Almost all developing countries responded to this event through a certain rise in interest rates, while moderating the inflationary pressures. The falling of commodity prices, and the oil price in particular, as well as the geopolitical issues have contributed to the negative expectations of the Russian economy and depreciation of the Russian ruble and the currencies of other post-Soviet countries.

The aforementioned developments in the global and regional economies also influenced the Armenian economy – reduced foreign currency flows from the rest of the world exerted depreciation pressures in the domestic currency market. The speed at which prices of certain goods grew on the back of depreciating local currency brought in destabilized inflation expectations, which led to a sharp increase in demand for goods and foreign currency and significant additional inflationary pressures. Although it is expected that by the end of the year the 12-month inflation rate will still hover within the confidence band, the Board of the Central Bank finds it appropriate to increase the refinancing rate in order to ease future inflationary pressures and anchor existing inflation expectations around the target.

As external and domestic economic developments unfold, the Central Bank will adjust the directions of monetary policy, while further attaining the inflation target in the medium

term.

Detailed information based on the setting of interest rate will be available in press release due on December 30, 2014 (Interest rate minutes).