

The Board of the CBA left the refinancing rate unchanged 8 percent

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Interest rate unchanged, 8 percent

In the June 25th of 2013 Meeting the Board of CBA decided to leave the Refinancing Rate of CBA unchanged, at 8 percent.

There was 0.02 percent deflation recorded in May of 2013. With the 1.3 percent deflation reported for the same period of the previous year, this led to the increase of the 12-month inflation up to 5.2 percent at the end of May.

The Board acknowledged that there was further slowing of the economic growth rates in the external environment. Therefore, some deflationary trends were observable in raw materials and food product markets in the world. In the light of such developments, in the forecast horizon the external sector will be marked with the slow pace of global economic growth and non-inflationary effects.

The CBA Board reckons that, in line with recent developments, the previous year's excess growth of real consumption kept on reducing in the Armenian economy, as was expected, attributable to the agriculture supply shock having gradually faded down. This has been concurrent with more-than-expected contractionary fiscal policy carried out by the Government. As a result, in the forecast horizon, the impact of domestic demand on inflation will remain non-inflationary. With such deflationary factors, the expansion of the inflationary environment in the second quarter was due mainly to negative developments in the agricultural sector, particularly the delayed vegetation season because of bad weather conditions as well as existing inflationary expectations. The was reflected in the smaller-than-expected decline in food prices, therefore, at the end of the first half of the year the 12-month inflation rate will be higher than predicted, according to the Central Bank estimates.

In view of the aforementioned developments, and considering that the current high inflationary environment is due to the temporary supply shock, the CBA Board finds it reasonable to leave the policy rate unchanged. Maintaining a positive real interest rate will enable the CBA to anchor the inflation expectations and foster economic activity.

Another CBA action of lowering the ratio of reserve requirement on funds attracted in drams, which helped pump enough liquidity in the market, further contributed to the economic activity.

In the meantime, the CBA is prepared to react to the demonstration of inflation expectations and its second-round effects driven by the rise in prices of energy resources effective from July.

Under this circumstance, the CBA estimates the 12-month inflation will near the 4.0% target by the second half of the next year and will be within that range in the forecast horizon, while the economic growth will stay in equilibrium.

More information on setting of the interest rate will be available in Press Release due on July 4th, 2013.