

Refinancing Rate Set at 10.75%

2023-03-14

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At the March 14, 2023 meeting, the Board of the Central Bank of Armenia (CBA) decided to leave the refinancing rate unchanged, at 10.75%.

In February 2023, the 12-month inflation continued to decrease to 8.1% at the end of the month. The 12-month core inflation reduced as well, reaching 8.4%.

In the first quarter of 2023, the economic growth in the world and main partner countries of Armenia remains at a low level. The 12-month inflation in Armenia's partner countries is decreasing. However, the overall inflationary environment remains elevated due to sustained high demand and pressures coming from the labor market. Therefore, central banks of developed countries will continue to tighten monetary conditions in the near future. This will lead to a weakening of global demand and contribute to a certain drop in prices in international commodity markets. As a result, the inflationary effects of the global economy on the Armenian economy continue to weaken.

High activity in the domestic economy of Armenia in early 2023 is persisting, which continues to be driven by strong growth recorded in services and construction sectors. At the same time, high rates of increase in exports and GDP potential are observable in industry and service sectors. Despite growth in remittances and incomes, private consumption remains subdued. It is expected that it will increase to some extent by the end of the year as accumulated savings would be spent. As a result of the implemented contractionary monetary policy, appreciation of the dram and weakened inflationary effects from the external sector, the overall inflationary environment in Armenia continues to mitigate. However, high demand and inflation expectations are still driving up wages and prices of certain goods and services.

The Board of the CBA finds it reasonable to leave the policy rate unchanged. The Board will be consistent in taking appropriate actions to ensure stabilization of inflation and neutralize any risk of deanchoring of inflation expectations. According to the outlined monetary policy scenario, the 12-month inflation will gradually decrease and, from the second half of 2023, will stabilize around the 4% target.

The Board of the CBA estimates that the risks of inflation deviation from the projected path are mostly balanced; in the event these risks materialize in any direction, the Board stands ready to respond accordingly in fulfilment of the price stability objective.

Detailed information underlying the setting of the interest rate can be found in the Inflation Report (Monetary Policy Program Q1, 2023) to be published by March 28, 2023.