

Refinancing Rate Set at 8.5%

2024-03-12

The Board of the CBA today decreased the Refinancing Rate to 8.50%

At its meeting today, the Board of the Central Bank of Armenia decided to reduce the key policy rate (refinancing rate) by 25 basis points, setting it at 8.50 percent. At the same time, the Board set the Lombard repo facility rate at 10.00 percent, and the Deposit facility rate at 7.00 percent. The Board agrees that a lower refinancing rate is necessary to continue to meet its price stability objective of ensuring an inflation rate of 4 percent over the medium term.

Annual CPI inflation has continued to remain at low levels well below the target, registering -1.7% in February 2023. Core inflation also continued to decrease, at -0.4% year-over-year in January.

The inflationary effects of the global economy on Armenia's economy continue to weaken considerably. In the first quarter of 2024, economic activity globally and in the key trading partner countries of Armenia continue to slow, and annual inflation there continues to decrease. However, the overall inflationary environment continues to remain elevated amid sustained inflationary pressures coming from strong labor markets. Key trading partner central banks would be expected to maintain a tight monetary policy stance in the near term, which could pose contractionary risks to global demand and commodity prices. Further sources of downside risk related to the global outlook and volatility in commodity prices include the impact of heightened geopolitical tensions in the Middle East on oil prices and supply chain disruptions, as well as risks of a worsening outlook for the Chinese economy.

Economic activity in Armenia remained robust in the fourth quarter, continuing to be driven by high growth in the construction and trade sectors. External demand has continued to slow, but domestic demand continues to remain at relatively strong levels. Inflation in Armenia continues to remain low, primarily driven by contractionary policy stance conducted by the CBA, the deflationary pressures from the external sector, and the implications of the appreciated dram. At the same time, growth in labor supply has contributed to somewhat fewer imbalances between aggregate supply and aggregate demand, which has been reflected in cooling wage growth, gradually declining non-traded

sticky price inflation, and lower inflation expectations.

In the face of high uncertainty, and given its commitment to achieving the price stability objective, the Board considers multiple scenarios during its deliberations. On the one hand, the Board discussed scenarios where possible underlying economic forces, including the potential for inflation expectations to prove to still be high, as well as uncertainty around the country risk premium, would require a tighter policy stance to cool domestic demand, re-anchor inflation expectations, and meet the price stability objective. On the other hand, the Board discussed scenarios where possible underlying economic developments, including a continued broad expansion of labor supply and weakening demand conditions, generate excess supply conditions that contribute to inflation persistently remaining at low levels. This would imply a more rapid and sizable downward policy rate path to sustainably bring inflation to target over the medium term horizon.

In summary, balancing the aforementioned risks in both directions, the Board of the Central Bank of Armenia finds it appropriate to continue to gradually ease the policy stance. The Board will continue to monitor risk scenarios, and stands ready to take adequate actions to ensure that the price stability objective of 4 percent inflation over the medium-term horizon is met.

Approved by the Board of the Central Bank of Armenia

March 12, 2024

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