

Monetary Policy Decision

June 11, 2024

June 11, 2024 Decision on the Refinancing Rate

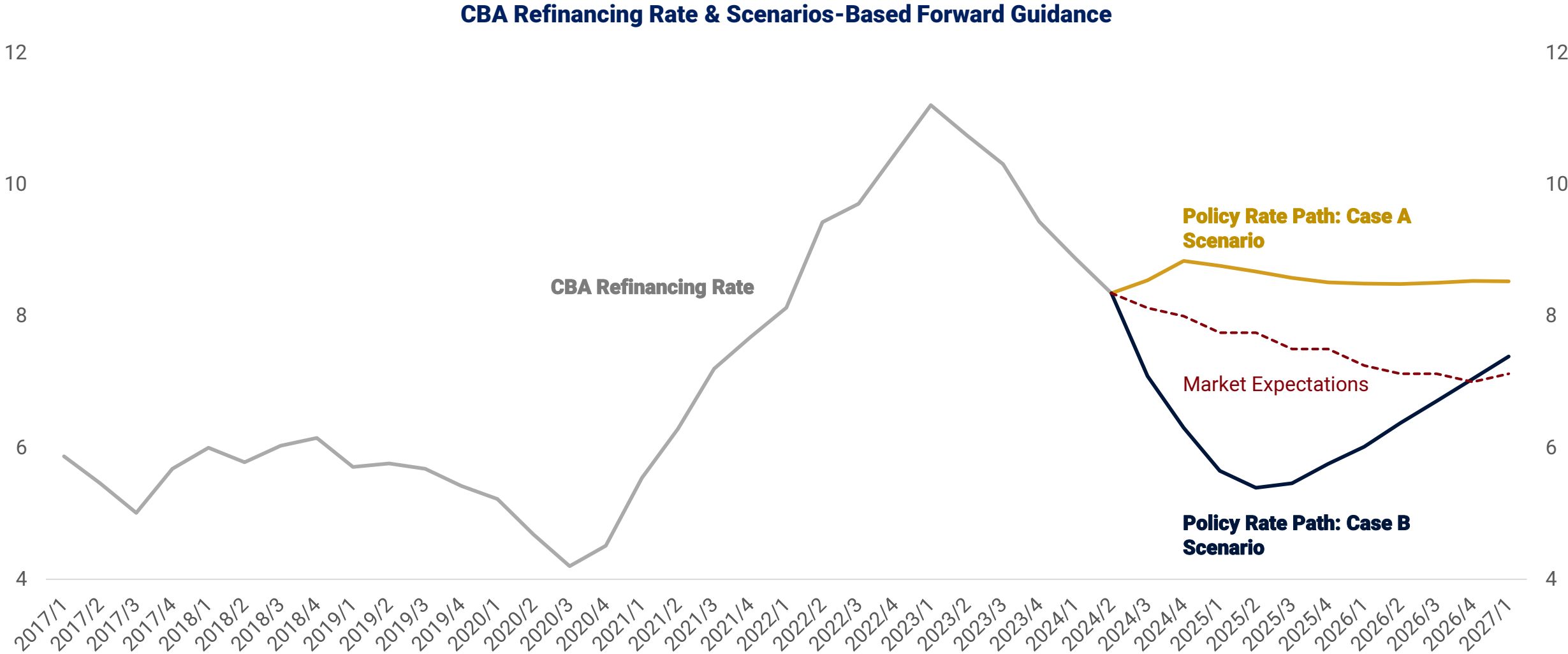


**At its meeting today, the Board of the Central Bank of Armenia
decided to decrease the key policy rate by 0.25
percentage points, setting it at 8.00%**

Lombard Repo Facility Rate: 9.50%

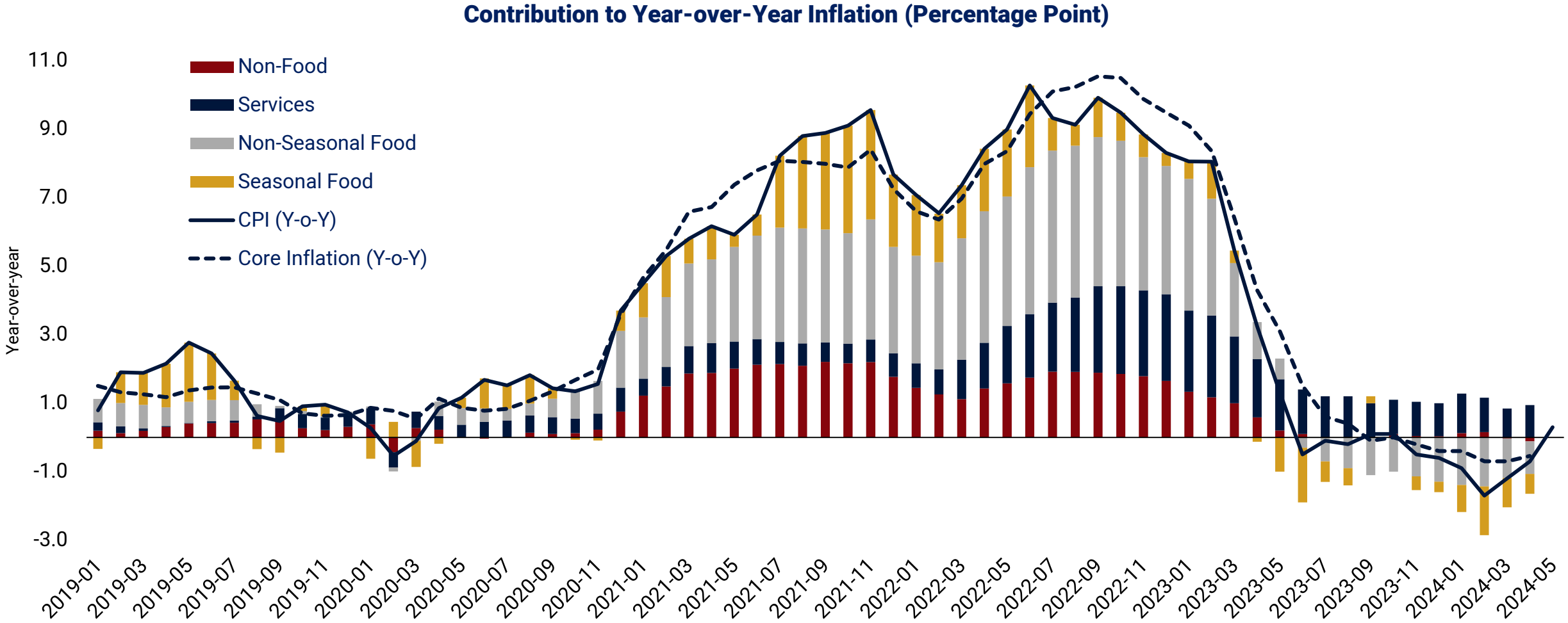
Deposit Facility Rate: 6.50%

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.



Source: CBA

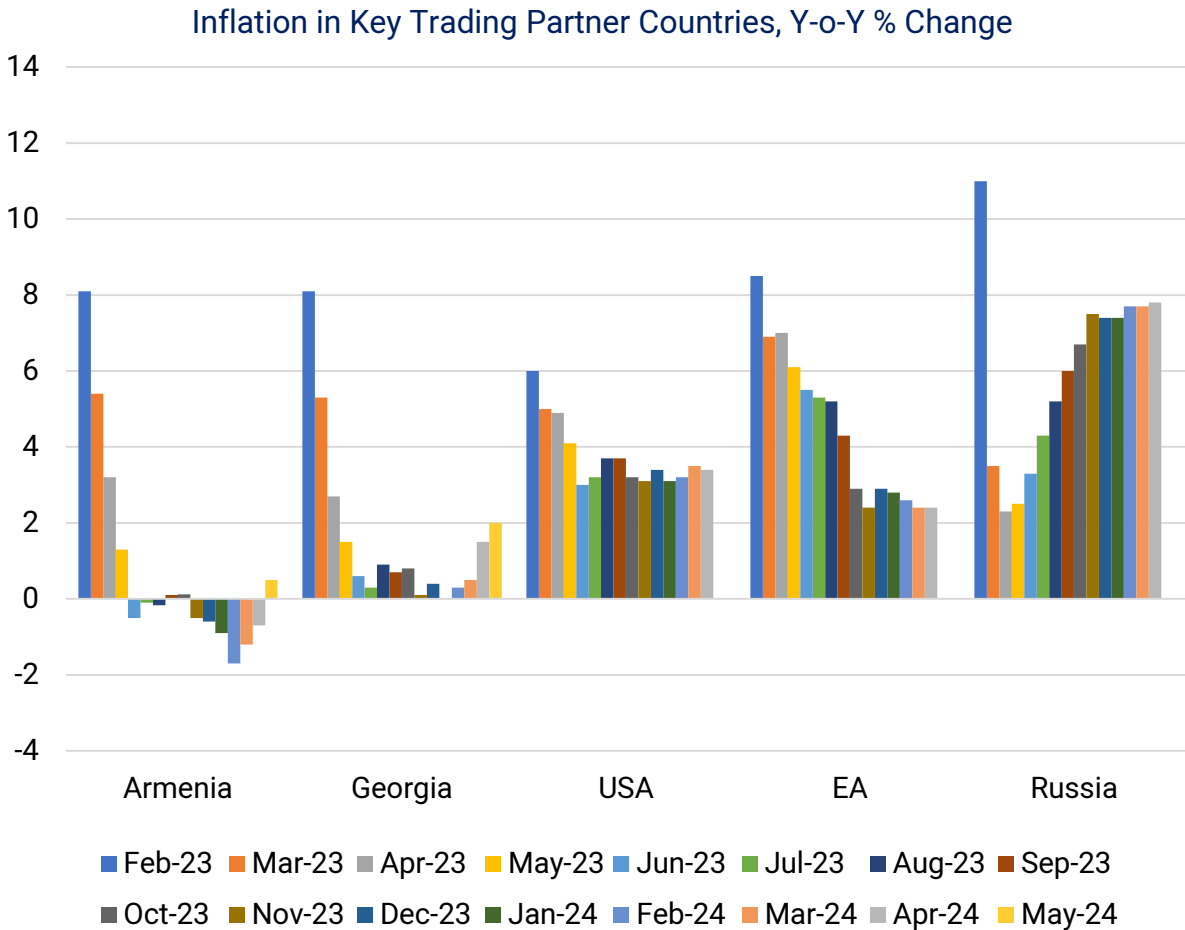
Annual CPI Inflation has Continued to Remain at Low Levels Well below the Target, Registering 0.3% in May 2024. Core Inflation also Continued to Decrease, at -0.5% Year-over-Year in April.



Source: Statistical Committee of the Republic of Armenia, Central Bank of Armenia

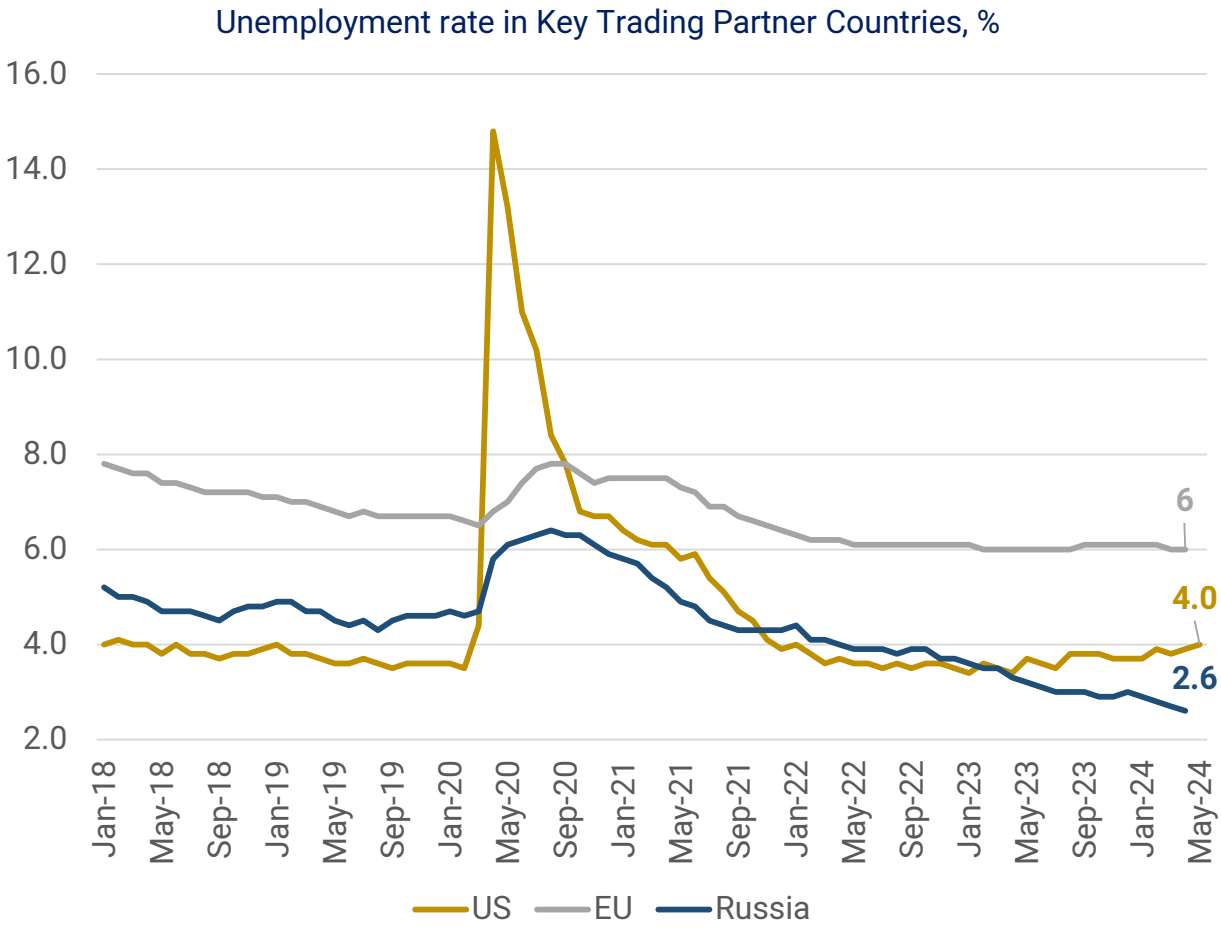
In Q2 2024, Risks of Slowing Economic Growth Globally and in the Key Trading Partner Countries of Armenia Continue to Persist

Global inflation continues to decline, but sticky prices continue to remain relatively elevated in key trading partner economies.



Source: Countries' statistical agencies

At the same time, overheated labor market conditions continue to contribute to sustained high demand conditions in key trading partner economies.



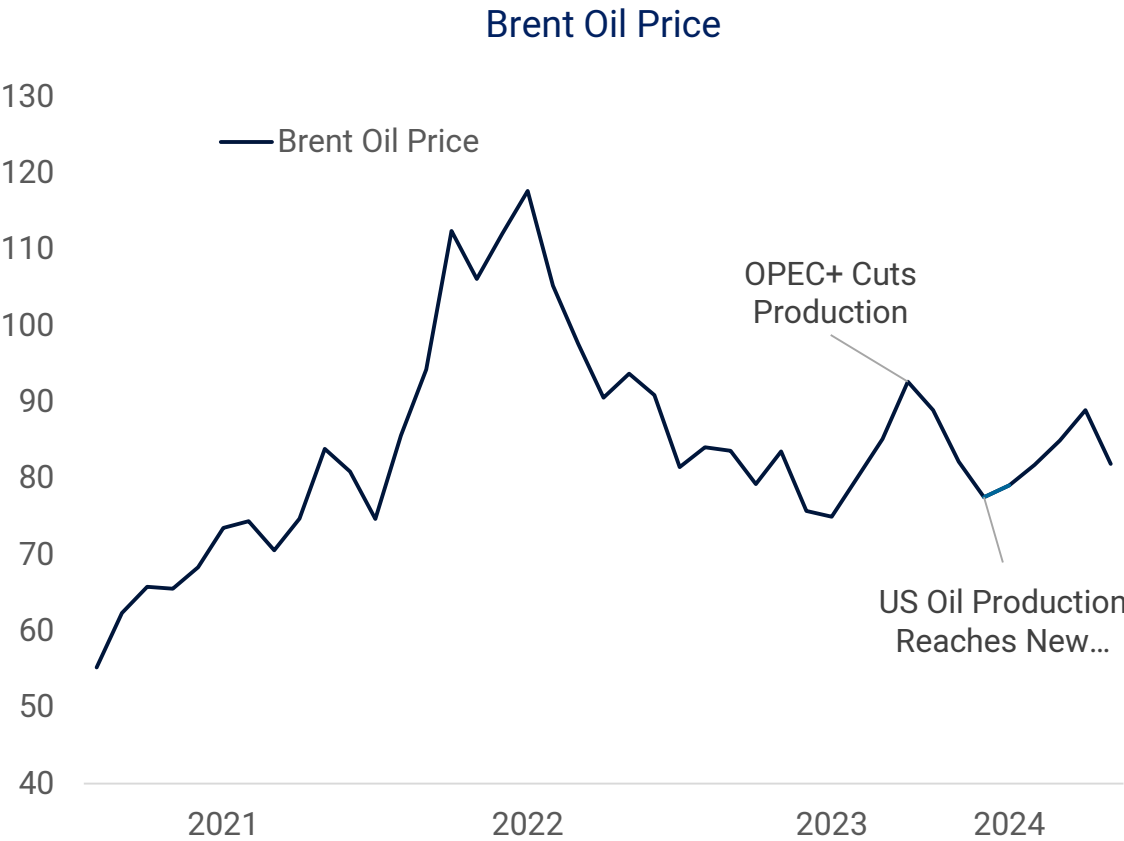
Source: Countries' Statistical services

Weak Inflationary Effects from the External Sector on the Armenian Economy Would Persist

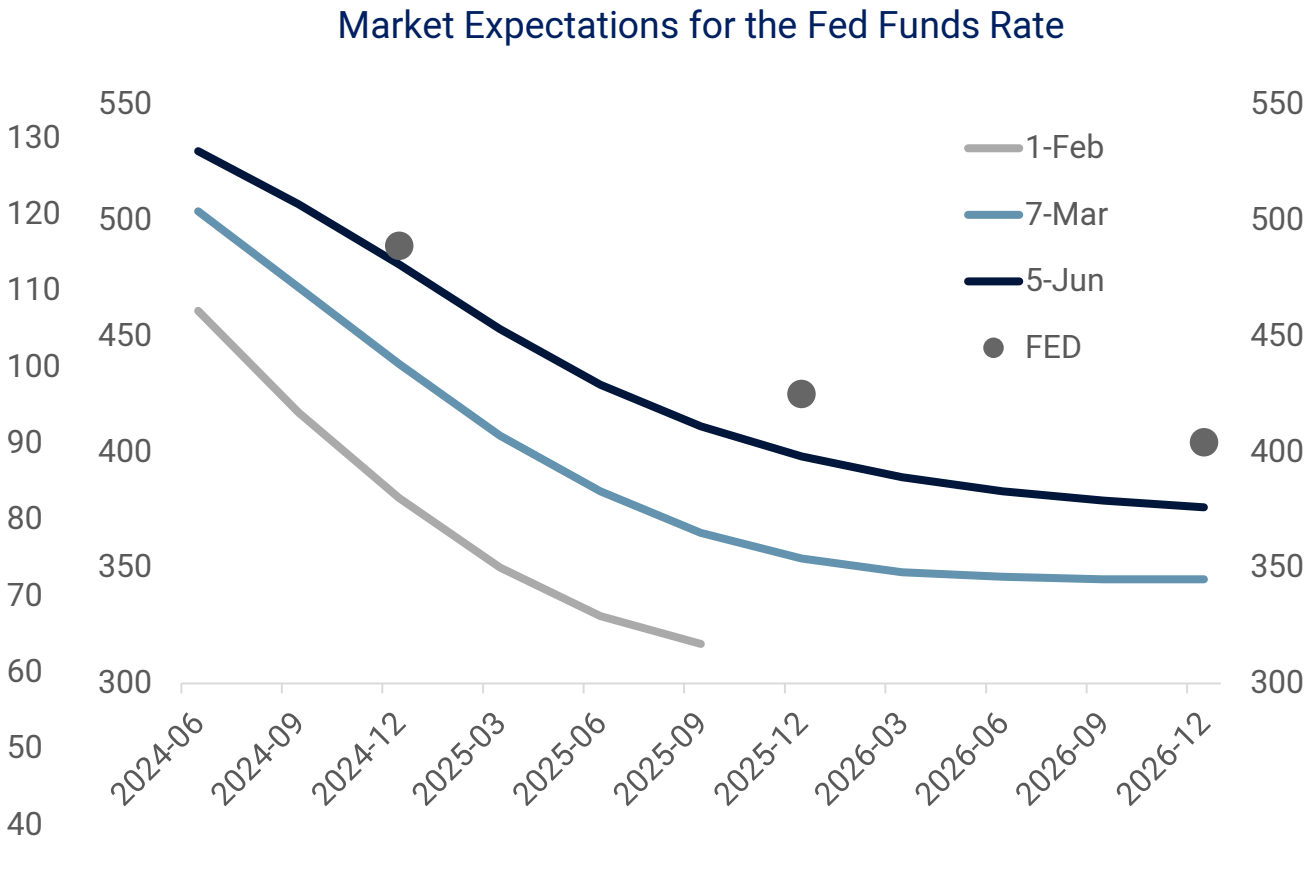


Geopolitical tensions in the Middle East since the beginning of the year, as well as growing tensions in international trade relations, continue to create risks for future growth in global commodity prices and potential disruptions in global supply chains.

In this context, it is likely that key trading partner central banks, and in particular the US Fed, would maintain tight monetary conditions for longer.



Source: Energy Information Association (EIA)

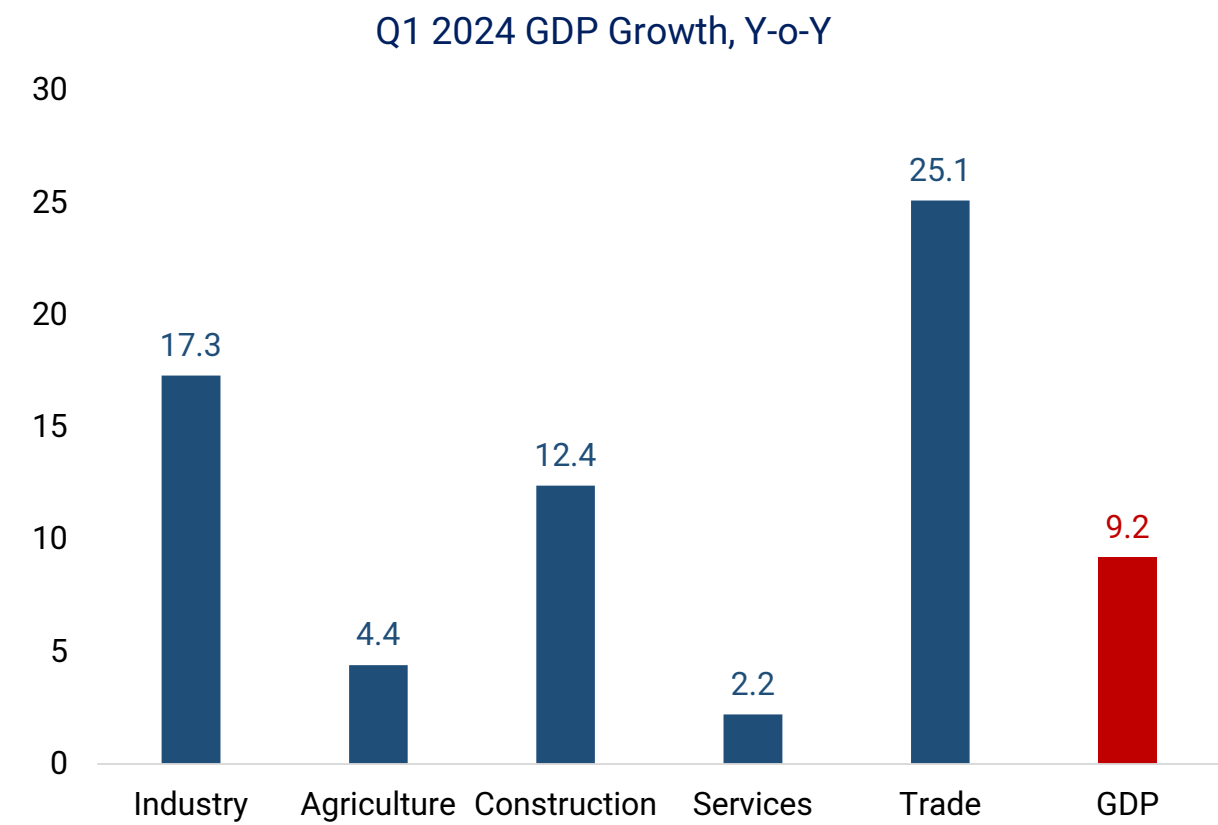


Source: Atlanta FED

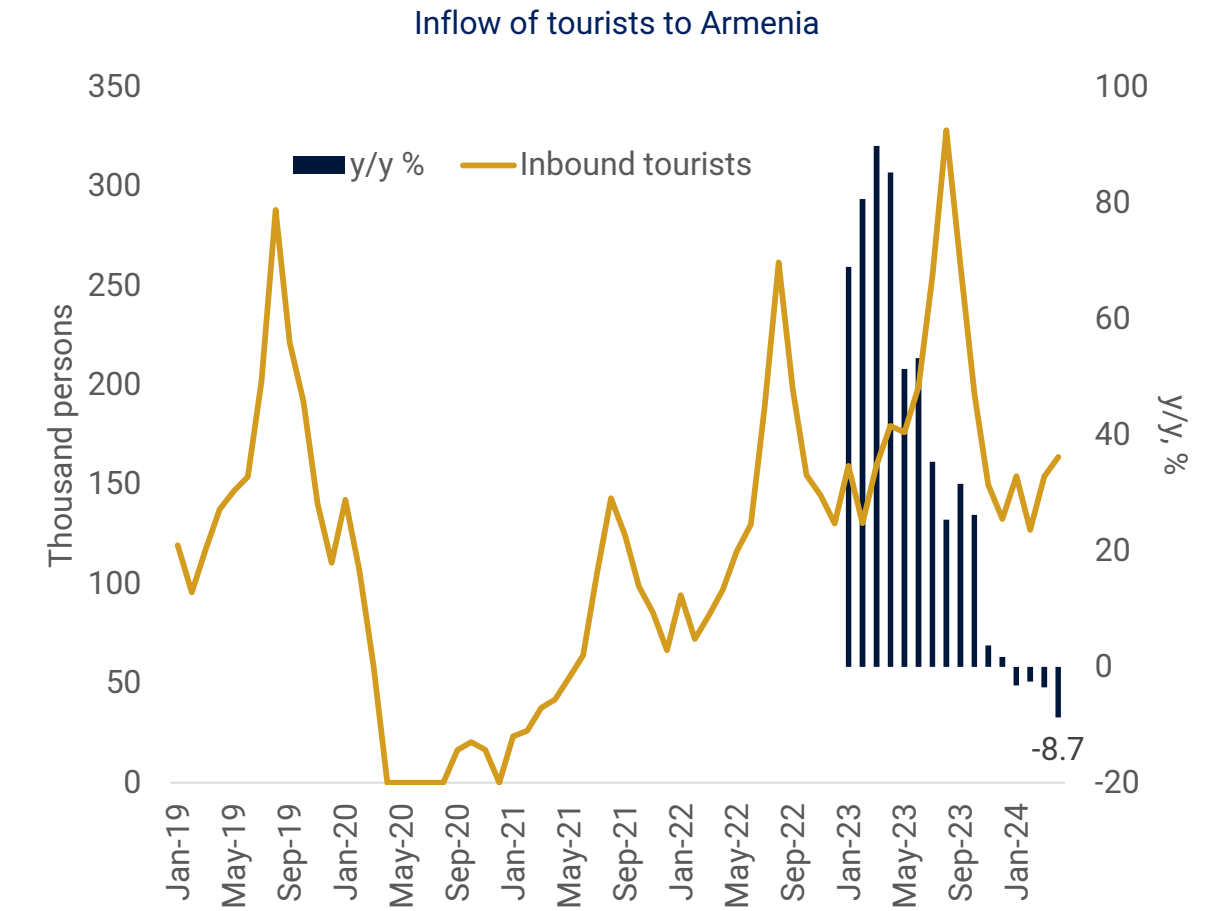
Economic Activity in Armenia Remained Robust in Q2, Continuing to be Largely Driven by Meaningful Growth in Construction, Trade and Industry

The latter continues to be impacted by certain short-term factors, posing significant uncertainty with respect to the sustainability of economic growth and its long-term outlook, as well as the strength of domestic demand and consumption conditions

External demand for domestic services is slowing, while high growth in private investments continues to contribute to domestic demand.



Source: Statistical Committee of RA

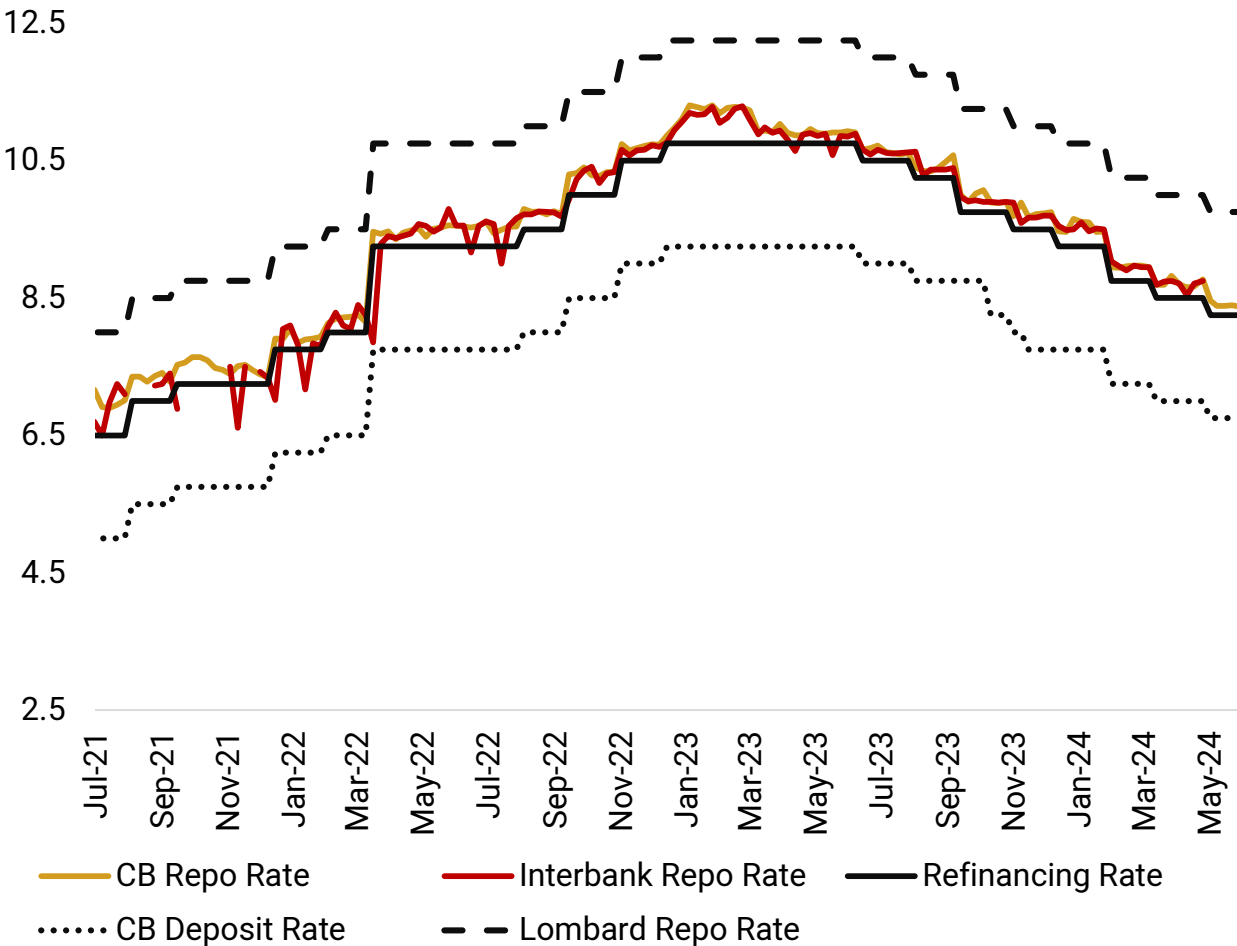


Source: Statistical Committee of RA, CBA calculations

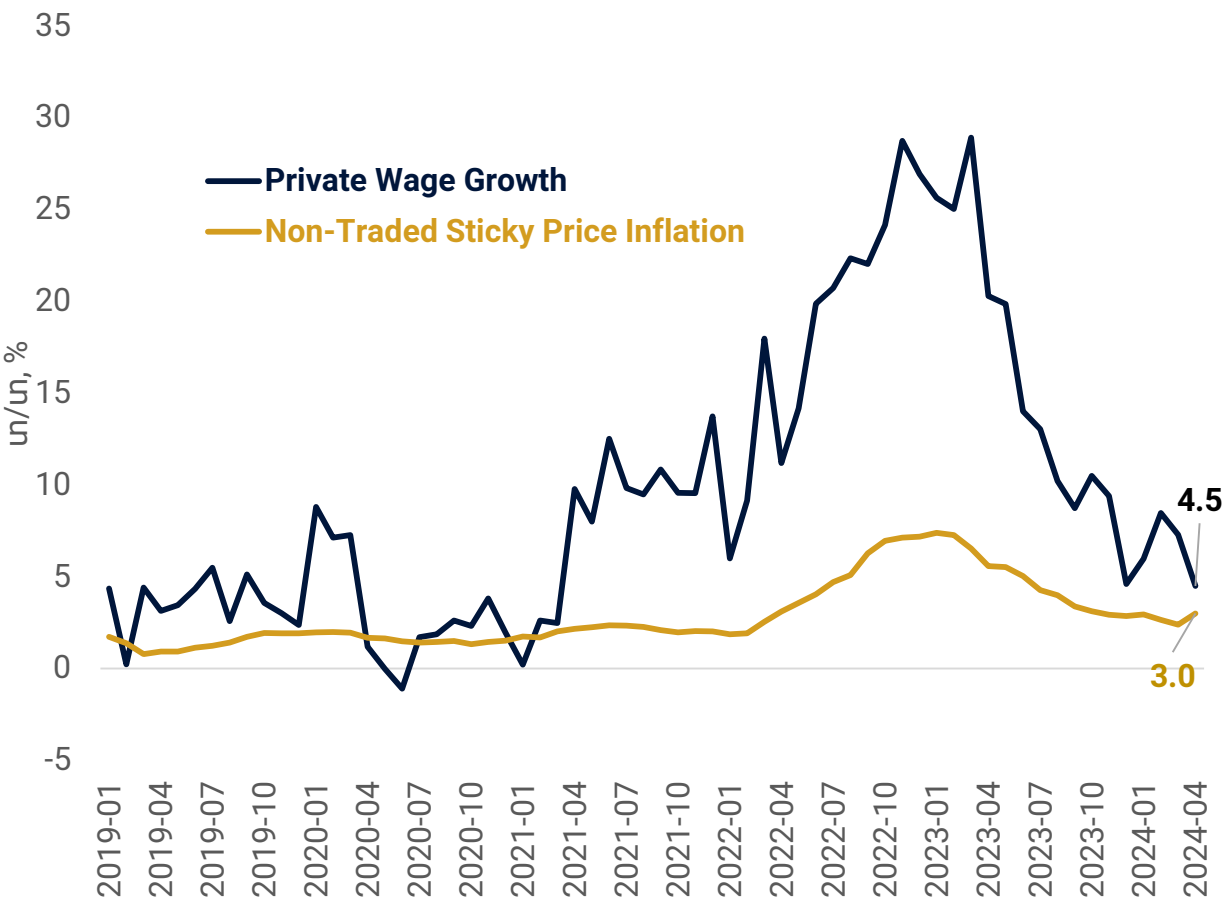
The Inflationary Environment in Armenia Continues to Remain Low, Driven by the Monetary Policy Implemented by the CBA in Recent Years, Weak Deflationary Pressures from the External Sector, and Somewhat Weaker Aggregate Demand



Risks for modest demand pressures stemming from fiscal policy continue to persist.



At the same time, labor market conditions continue to cool somewhat, reflected in cooling wage growth as well as declining non-traded sticky price inflation.



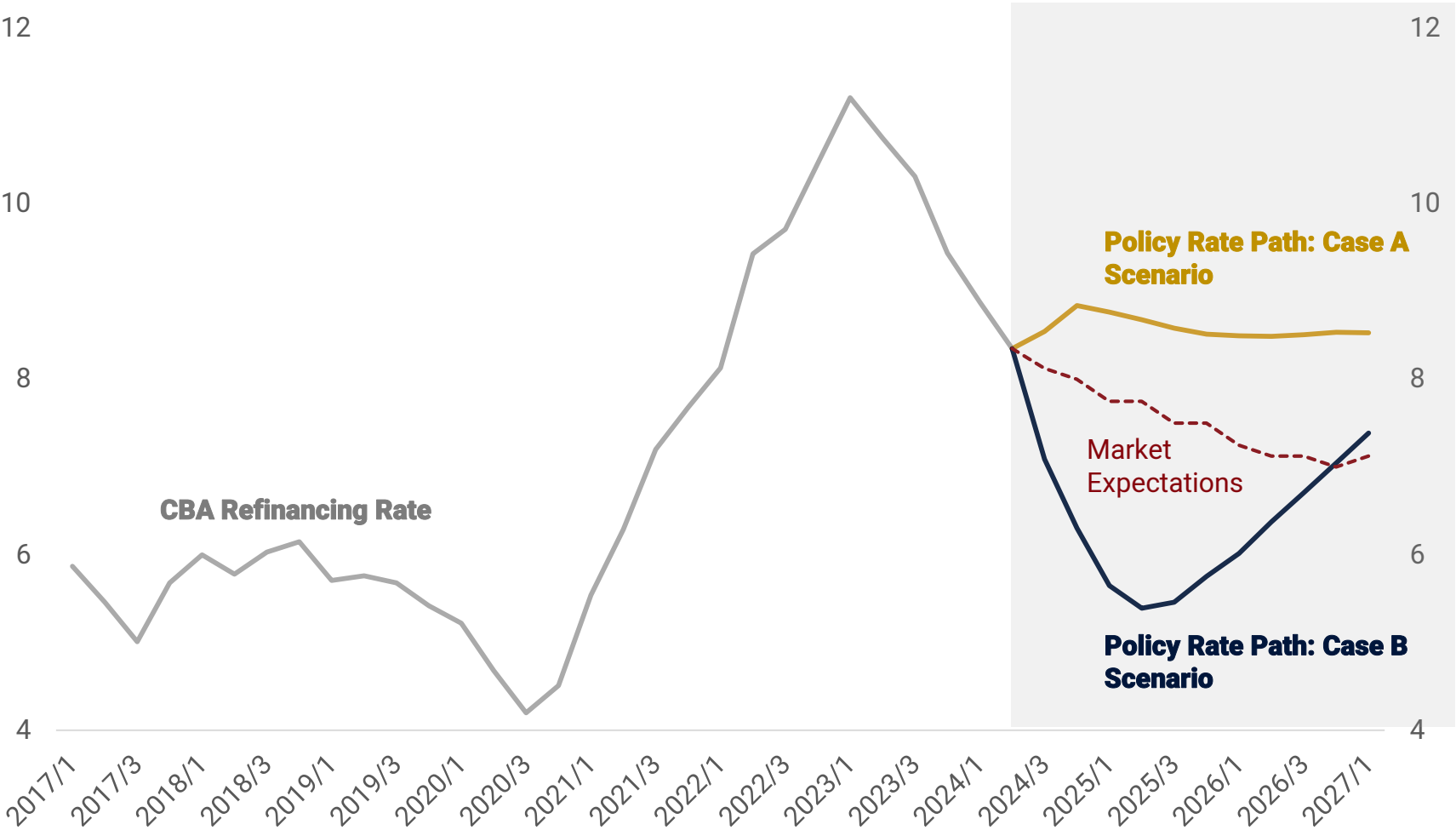
Source: Central Bank of Armenia

Source: Statistical Committee of the Republic of Armenia; Central Bank of Armenia

In the Face of High Uncertainty, and Given its Commitment to Achieving the Price Stability Objective, the Board Considers Multiple Scenarios during its Deliberations



CBA Refinancing Rate & Scenarios-Based Forward Guidance



Case A-Type Scenarios

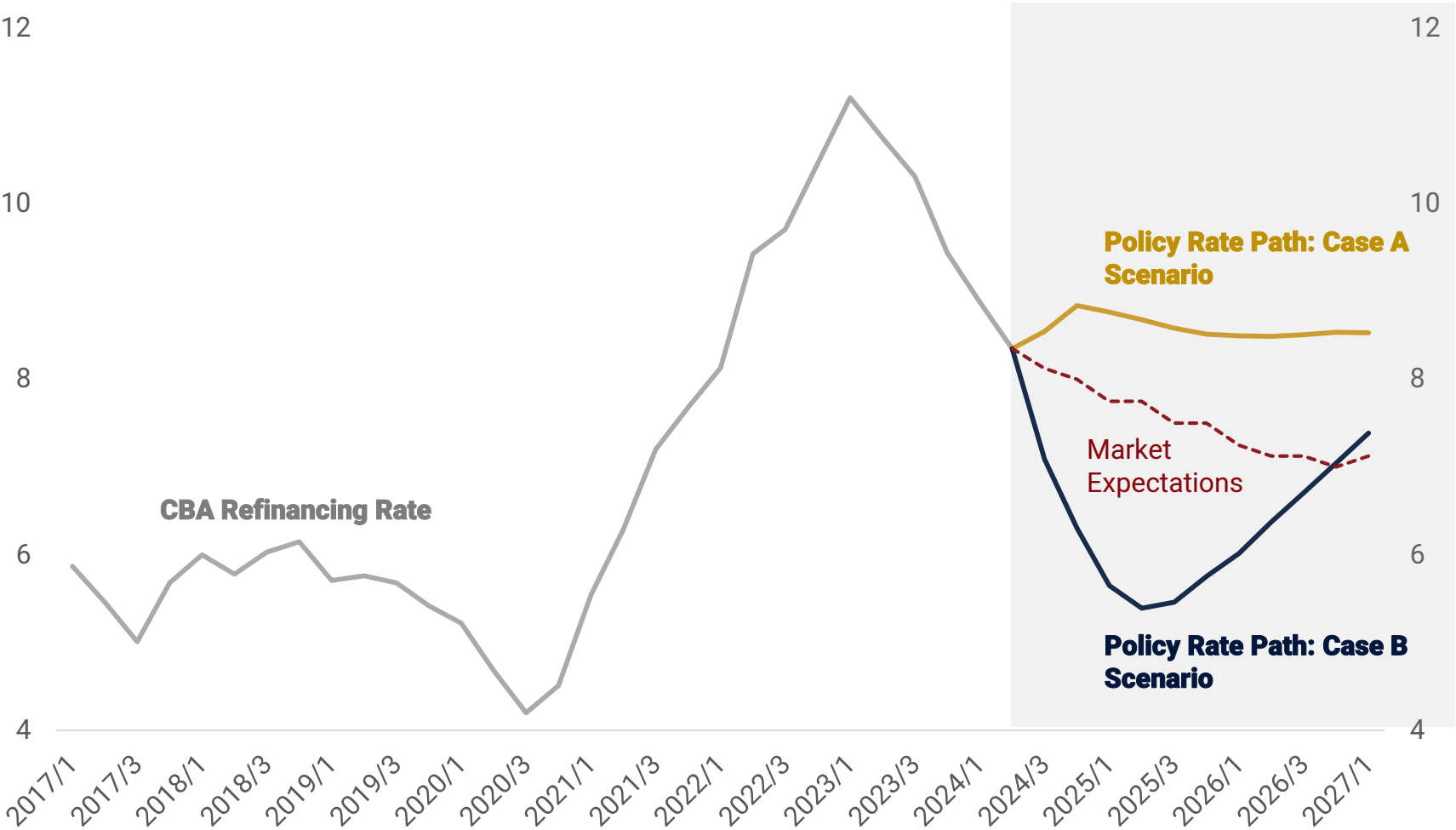
On the one hand, the Board discussed scenarios where possible underlying developments—including persistently tighter monetary conditions in key trading partner countries, as well as uncertainty related to the country risk premium and neutral interest rates—would require a higher path for the policy rate relative to current market expectations in order to manage risks that threaten the price stability objective.

Source: CBA

In the Face of High Uncertainty, and Given its Commitment to Achieving the Price Stability Objective, the Board Considers Multiple Scenarios during its Deliberations



CBA Refinancing Rate & Scenarios-Based Forward Guidance



Source: CBA

Case B-Type Scenarios

On the other hand, the Board discussed scenarios where potential economic developments—including the risk of weaker demand conditions emerging, given certain structural features of economic growth—would cause inflation to persistently remain at a low level. This would imply a more rapid and aggressive downward path for the policy rate than what is currently priced in markets in order to sustainably bring inflation back to target in the medium-term horizon.

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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.



Thank You