

National Bank of Tajikistan keeps the refinancing rate unchanged at 14 % per annum

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The Monetary Policy Committee of the National Bank of Tajikistan has decided to keep the refinancing rate unchanged at 14.0 % per annum. This decision was made in connection with changes in the financial and external economic situation and macroeconomic indicators of the country, as well as changes in the inflation rate and its projection, by taking into account external factors, in order to ensure the effectiveness of monetary policy and keep inflation in the medium term at the target 7, 0% ($\pm 2\%$).

Since the beginning of 2018, the inflation rate has shown a stable trend, also in April the annual inflation has made 1.9%, which was mainly occurred due to dropping of food prices.

In general, as could be expected, the formation of inflation rate below the projected level mostly was caused by dropping prices for consumer products.

The main factors that led to a significant reduction in annual inflation, taking into account the basic effect¹ were primarily supply factors, including the growth in production and supply of food products and stabilization of domestic demand and consumption as well as the latest amendments to legislation², which promote the gradual balance of consumer market. In addition, the stability of world prices of agricultural products including its production and supply in the region has eliminated additional pressure on the level of domestic prices.

In turn, the stable situation in the domestic foreign exchange market and the stability of national currency for the first quarter, coupled with the consistent implementation of monetary policy also have contributed to reducing inflationary expectations of the population.

The conducted analyzes show that the core inflation, which characterizes the long-term price trend without short-term fluctuations, has remained stable and in annual terms reached 1.8%. This indicates a limited impact of monetary factors on the annual inflation.

According to the projection it is envisaged that the trend of decreasing annual inflation has a temporary characteristics, and its level in 2018 will be below the projected target (7.0% + 2 pp). In the medium term, starting from the first quarter of

¹ That is, a higher base of consumer price index in the previous year.

² Amendments to the Law of RT "On regulation of traditions, celebrations and rituals in the Republic of Tajikistan", which will prevent violations related to unnecessary expenses in conducting rituals, and facilitate the implementation of measures with the least expenditures and increase the welfare of the population.

2019, inflation may return to a stable level, that is, to the level of the target. This, primarily, will contribute to gradually decrease in the impact of the above mentioned factors.

Despite the forecasting of a stable level of inflation, due to the impact of external factors and exchange rate pressures, there is the possibility of their negative impact on stability of inflation and other macroeconomic indicators. Especially, the application of sanctions measures against key trade and economic partners of Tajikistan, as well as the tense geopolitical situation in April, increased the uncertainty in the region, and hence, these shocks influenced on financial and economic situation of the country (through exchange rate channels and money transfer channels) .

At the same time, a number of additional factors, including the tendency of increase in the Federal Reserve's interest rates as well as the increase in demand for import of products to the republic (45% for the first quarter of 2018), began to exert direct pressure on balance of supply and demand in domestic market.

Hence, in order to minimize potential inflation risks, maintain stable dynamics of inflation expectations and price level in the medium term, the refinancing rate will be kept unchanged at 14 % per annum.

The National Bank of Tajikistan will continue implementing a consistent monetary policy aimed at achieving price stability in the medium term. In case of lower inflation risks, the National Bank of Tajikistan may also consider the issue of probable refinancing rate revision at regular meetings of the Committee.

The next meeting of the Monetary Policy Committee of National Bank of Tajikistan will be held in accordance with the approved schedule. The next decision will be announced through the official website of the National Bank of Tajikistan.