
External Shocks And Price Increase

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Hayots Ashkharh Daily - 30/10/2007

Yesterday the government submitted the draft budget of 2008 to NA Standing Committees' consideration. During the break President of the Central Bank Tigran Sargsyan responded to the questions of the journalists.

"What qualification would you give to the budget of the coming year?"

" It is a budget of a strictly social trend, conditioned by the fact that the government has essentially increased the sums bound for the social system. This is the first and foremost peculiarity of the budget of 2008.

The second issue that must be considered is the level of the prices and the pressure of price increase that we get from the world markets. It is not a secret for anyone that the situation is really difficult in the world markets at present. Both Central Bank of Europe and the US Federal Reserve System are trying to overcome this crisis.

On the one hand this crisis is associated with the reduction of the interest rate, which is aimed at helping the financial sector to prevent the existing problems from turning into a real crisis. On the other hand it is associated with the unprecedented increase of prices in first of all the fuel and the food markets. Taking into consideration the fact that Armenia mainly imports these two groups of products, logically the price pressures can't pass round Armenia.

Consequently, in 2008 the control of level of prices must be in the focus of attention.

Central Bank must implement it with monetary tools and the government must control the markets, to provide fair and competitive pricing and to neutralize the pressure of price increase in Armenia, by means of the growth of production. This means we have lots of work to do inside Armenia, in terms of controlling the product-markets."

" Taking into consideration the continuous fall of dollar exchange rate, don't you think that Armenia will be able to pay off its external debt much earlier than it has to?"

'The thing is our external debt is rather small and we have long-term means involved (35 and more years). And the interest rates are rather low, that is why it is not appropriate to refuse such privileged loans, especially because in future we will have to take short-term and more expensive loans. Naturally we are not facing such a problem, especially because, I must repeat, our external debt is rather small.'" " What new methodological innovations do you intend to introduce to control the increase of prices?"

'The methodology connected with the increase of prices hasn't changed and for the coming three years we considered it appropriate to target the 4% price increase. This means by implementing its monetary policy CB must consider this program index for the coming 3 years. As well as the government, by using its levers must consider that society will follow the 4% price increase, in the probability of fluctuating between the limits of 1,5%.
