
According To CBA Forecast, Inflation To Make 7.4% In Armenia In 2008

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YEREVAN, APRIL 14, NOYAN TAPAN. The Central Bank of Armenia (CBA) has presented forecasts about inflation for the next 12 months. According to the CBA press service, by the forecasts of the inflation model by commodity types, under conditions of the unchanged level of market interest rates, 12-month inflation will make 6.9% at the end of the 1st quarter of 2009 and 7.4% at the end of 4th quarter of 2008. The current forecasts have been specified as compared with the previous ones in the direction of a growth, taking into account the inflation developments in the 1st quarter of 2008.

In particular, starting from 2nd quarter of 2008, international prices of raw material and food commodities will decline somewhat, while real GDP growth rates will maintain in Armenia, under conditions of the gross demand a little exceeding its balanced level.

The CBA considers it possible that actual inflation in the country may exceed the forecast index due to a higher than forecast growth of international prices of oil and food commodities (including grain), with the growth of oil prices depending on both geopolitical and foreign economic developments. A higher than expected growth in crediting of the economy, which may result in additional encouragement of the overall demand, may contribute to higher than forecast inflation in Armenia.

It is indicated that depending on the volume of agricultural production, food prices may affect the overall inflation in the direction of either a growth or a decline.

Taking into account the developments in the 1st quarter of 2008 and the forecasts for the next 12 months, the CBA Board registered that the inflation pressures continued to increase at the end of the 1st quarter, notably affecting the domestic prices of foodstuffs. The high inflation pressures from the external environment are expected to continue in the 2nd quarter of 2008 and will start declining at best in the second half of 2008 - only in case of a favorable course of events. The degree of uncertainty of further developments in the external environment has also grown. Deflation risks are possible but in all likelihood the risks of increasing inflation pressures will prevail. At the same time, the secondary impact of the above mentioned developments - combined with the impact of the surplus demand from the previous period - starts to become obvious, leading to a growth of non-food commodity prices and service tariffs.

Gradual tightening of the monetary and credit conditions in this situation aims to mitigate the inflation expectations conditioned by the indicated developments, as well as the secondary impact. At the same time, the CBA Board pointed out that the tendency of the monetary base to grow should always be in the center of attention.

In conditions of different opinions on measures to reduce the inflation pressures from the external environment, on the amount of secondary inflation impact and on the intensity of inflationary inertia, the Board discussed the options of raising the interest rates of repo transactions by 0.25% or 0.5%.

As a result, at the sitting held on April 2, 2008, the CBA Board made a decision to raise refinancing interest rate by 0.25% and fix it at 6.50%.

The interest rates of lombard credit and deposit were fixed at 9.5% and 3.5% respectively.
