
According to CBA Forecasts, Inflation To Make 4.1% In 2007.

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YEREVAN, JANUARY 12, NOYAN TAPAN. According to the forecasts of the Central Bank of Armenia (CBA), inflation will make 4.1% in December 2007 on December 2006, whereas it made 5.2% in December 2006 on December 2005.

NT was informed from the CBA press service that the CBA forecasts that in 2007 the euro's smooth appreciation will continue, and the exchange rate of the euro will make 1.35 USD in late 2007. These forecasts are made based on the US state budget and current account deficits, which are at quite a high level. Besides, the difference between the interest rates of the US Federal Reserve and the European Central Bank will continue to decrease in favor of the euro. Oil prices are expected to reach 80 USD for a barrel instead of the current price of 61 USD.

International financial terms will be stricter in 2007 in connection with a rise of interest rates by the central banks of almost all developed countries. The exception will be the US economy where a decline in interest rates is expected in the first half of 2007 under conditions of low economic growth and high but already declining inflation. The stricter terms will result in some reduction of capital inflows into developed countries, as well as Armenia.

As for grain prices, it is noted that inflation risks have somewhat weakened in connection with good harvests in Russia and a small reduction of grain exports from this country.

In 2007, a slow-down in the economic growth rate is expected in Armenia compared with the previous years: the capital construction growth rate will decline, the growth rates of construction and services will be the same, some growth is expected in industry. At the same time in the gross demand structure, a decline in the growth rate of domestic demand and an increase in export growth rate are expected in 2007. Out of the components of domestic demand, the real growth rate of private expenditures will decline in parallel with an increase in the real growth of state expenditures. As in the previous years, it will be conditioned by a continuous growth of the population's incomes and a considerable inflow of remittances. Private investment growth rate will remain high, mainly in such sectors as house construction, transport and communication, energy, metallurgy, mining and chemical industries.

Export growth is expected in 2007 through industry growth and solution of structural problems in the diamond cutting sector. Real import growth rates will remain the same as compared with last year under conditions of a slow-down in the growth rate of dollar prices of imports and the forecast demand.

In 2007, the labor market indices will continue their behavior as displayed in the last five years. Particularly, the level of unemployment will continue to fall, especially in the construction and service sector, due to an increased labor demand. As the above mentioned sectors are the main ones to secure GDP growth and these sectors do not require a large productivity growth, the salary growth

in the economy will continue exceeding the productivity growth indices. As a result, some inflation pressures will appear in the consumer market.

Remittances (their growth rates will a bit decline) will also have an extending impact on inflation.

A slight extending impact of the tax budgetary policy on the gross demand is expected in 2007, mainly due to an extending impact of expenditures.

Dramization registerted in the last two years is expected to continue in 2007 as well because of a number of measures aimed at dramization of the economy.

Financial intervention growth tendencies will continue in 2007, which will manifest themselves in a growth of the dram multiplier and dramization coefficients. At the same time there will be a decline in dollarization of the economy.

The high growth rates of the economy's crediting will also be maintained this year, which is conditioned by considerable profits of banks last year, as well as by implementation of big credit programs in 2007 at the expense of authorized capital replenishment resources - in particular, considerable mortgage crediting.
