

Armenia: WFP VAM | Market Price and Climate Monitoring

Market Price Bulletin Issue No. 5: July 2022



World Food Programme conducts routine market analysis to understand the market situation through observing trends of retail market prices and exchange rate fluctuations. Based on the interest, the bulletin contains descriptive information about the market prices of selected food and non-food items. Bulletin includes a snapshot of the levels of rainfall and vegetation per regions.

Market prices presented in this bulletin cover the period of June 2021 – June 2022. Main sources used for the bulletin are the Statistical Committee of RA, Central bank of Armenia and WFP VAM Dataviz.

HIGHLIGHTS



The exchange rate of USD/AMD keeps decreasing since the end of March 2022, in June 2022 it decreased by 34.8 percent. The exchange rate of RUB/AMD has greatly increased since March 2022 and as of June it is 7.5 AMD.



Armenia faces price increase of both food and non-food items. Consumer Price Index increased by 10.3 percent compared to June 2021. Food inflation was 17.4 percent in Armenia in June 2022 vs June 2021, hence negatively influencing access to food in particularly for vulnerable households. The highest price increase among food items was for vegetables: 46% in June 2022.



In June 2022, price hikes of selected commodities most frequently consumed by Armenians were observed compared to June 2021. The increase of food and non-food prices in combination with other factors, such as the price increase of agricultural goods, services, etc, will affect the population in Armenia in particular the most vulnerable households decreasing their purchasing power.



The highest rates of food price inflation were seen in Gegharkunik (18.2%), Lori (17.9%), Yerevan (17.5%) and Tavush (17.1%) regions in June 2022 vs June 2021. The lowest rate of food price inflation was observed in Vayots Dzor (14.2%) for the same period.



Price increase of fuel (diesel by 46 percent and petrol by 10 percent) was observed in June 2022 vs June 2021.



Factors influencing price hikes remain volatile political landscape in the world resulting in dramatic changes in cargo and passenger logistics, transportation costs, price increase in countries of import tailored with domestic shocks such as inflation, unavailability of effective irrigation systems, increasing fuel prices globally, limited state regulation mechanisms to curb inflation and respond to shocks, etc.



Climate changes, in particular the volatility of rainfall, affect agricultural production in Armenia. In June 2022, in several regions heavy rainfall and hail damaged the harvest.

EXCHANGE RATE, CONSUMER PRICE INDEX AND FOOD PRICE INFLATION

Since March 2022, Armenian Dram (AMD) has appreciated over USD and as of June 2022 the exchange rate was 423 AMD with a decrease of 34.8 percent compared to May 2022. The appreciation of AMD may decrease the prices of imported goods and commodities, as well as many internal prices of high-value items.

As to AMD/Ruble exchange rate, a continuous increase is observed started from March 2022. As of June 2022, the exchange rate was 7.5 with an increase of 0.3 percent compared to May 2022.

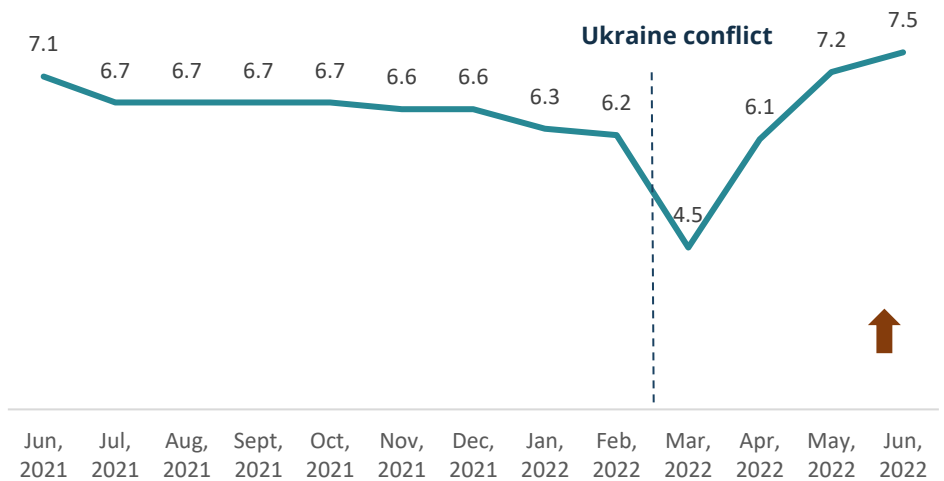
These fluctuations of the exchange rate are conditioned with several factors, which include the low demand of USD, high demand of Rubble. Since the beginning of the conflict in Ukraine, there was big inflow of Russians to Armenia resulting in increase of economic activity. This increased the demand of AMD in the market and though brought to its appreciation.

As per Central Bank of RA, the CBA has no influence on the formation of the exchange rate. Exchange rate is formed in the market based on free supply and demand. So, in case Central Bank acts against its mandate, enters the market and artificially depreciates the dram, Armenia will face another wave of inflation. CBA suggests as a solution to rely on international practice to focus on sectoral policies.

Fig 1: Exchange rate (AMD/USD), June 2021 – June 2022 (in AMD)



Fig 2: Exchange rate (AMD/Ruble), June 2021 – June 2022 (in AMD)



Source: Central Bank of Armenia

Consumer price and food price inflation



Consumer price index (CPI) and food prices showed continuous increase since Armenia faced double shocks in 2020. In Dec 2021 and the first two months of 2022, a slight decrease was observed, whereas when the conflict in Ukraine escalated, consumer and food prices started to increase.

The comparison of inflation in Armenia for both food and non-food items in June 2022 with June 2021 constitutes **10.3** percent being the highest in the last two years. The consumer price inflation compared to May 2022 is 0.3 percent. The food inflation rate reached **17.4** percent in June 2022 compared to June 2021, however it decreased by 0.2 percent compared to May 2022, which means they need to de-prioritise other expenditures over food and other non-food items.

The monitoring of food prices in regions (urban areas only) showed a high increase in June 2022 in Gegharkunik (18%), Lori (18%), Yerevan (18%), Tavush (17%) and Kotayk (17%). The lowest increase was seen in Vayots Dzor (14%) and Armavir (15%). The Consumer Price Index is the highest in Yerevan (10.9%) and lower in Vayots Dzor (8.3%),

The increase of food and non-food prices is conditioned with the global price increase for food and non-food items, even before the conflict in Ukraine and sanctions against Russia. Besides, there is an increase of economic activity in Armenia¹ in the first quarter of 2022, which may also impact the price inflation.

Fig 3: Consumer Price and Food price inflations (%), June 2022 vs June 2021

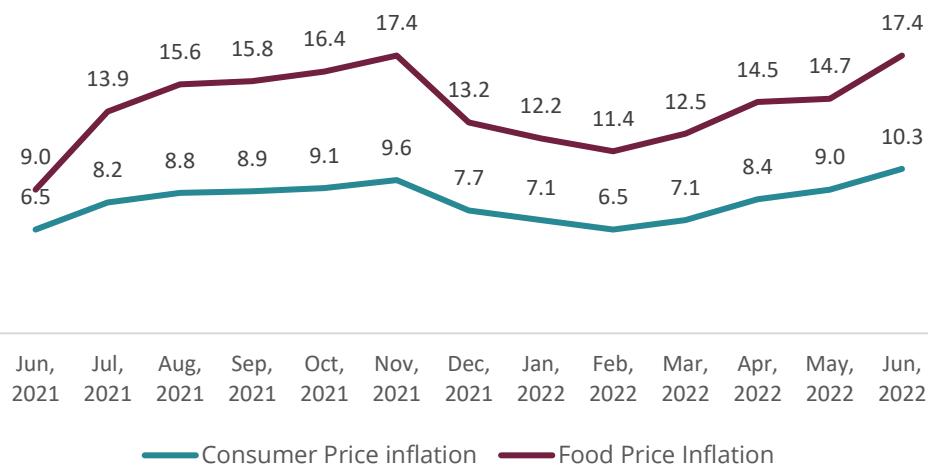
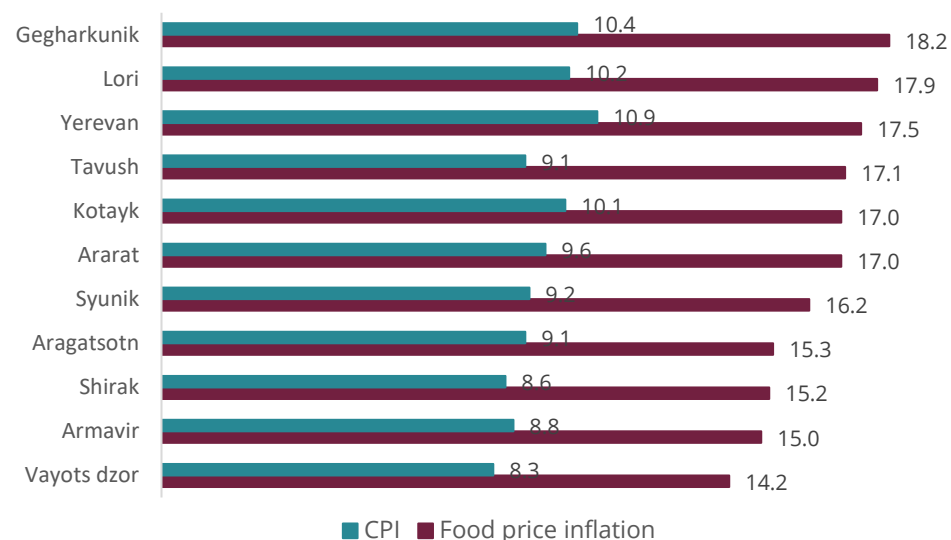


Fig 4: Food price inflations per regions (%), June 2022



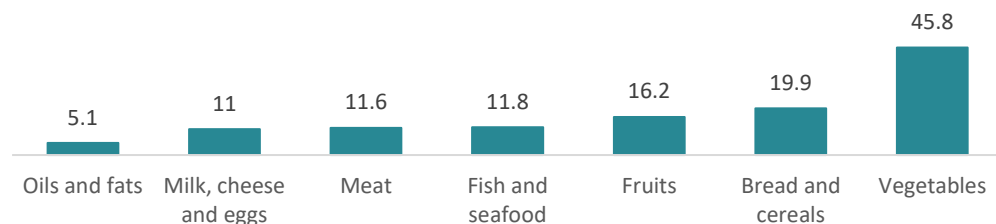
Source: Statistical Committee of RA

¹ sv_03_22a_111 (armstat.am)

MARKET PRICES OF SELECTED FOOD COMMODITIES AND FUEL

Consumer prices of selected food groups

Fig 5: Consumer prices of selected food groups compared with the same month of previous year (%), June 2022 vs June 2021



Average national prices for selected food commodities and fuel

The main food commodities frequently consumed by population in Armenia are pasta, lentils, buckwheat, rice, wheat flour, oil (vegetable), cabbage, carrot, onion and chicken. Market prices of all these items have unfortunately gone up to approximately 40% compared to June 2021.

Among these food items, lentils have recorded the highest annual inflation rate (38%). Buckwheat is the second commodity (33%) and pasta is the third item with 25% of inflation rates. Both lentils and buckwheat are imported from Russia and this striking increase in prices of these commodities may be the result of situation around Ukraine followed by sanctions against Russia and the latter's enacted defensive mechanisms in the face of increasing prices of the products of its own production. On the other hand, vegetable oil experienced not considerable yet 5% decrease in prices compared to June 2021. Additionally, carrot prices decreased by 20%.

The wheat flour price has increased for 14% during the reporting period whereas it should be still monitored in upcoming months to detect any remarkable deviations after the harvesting period and imports from Russia to understand potential price changes of this essential commodity.

Consumer prices analysis pinpoints an upward trend of prices among all the food groups considered within the period of June 2021 and June 2022. Constant increase of prices almost in all food groups is noticeable, with a drastic increase of **"Vegetable"** group in June 2022 (45.8%) compared to June 2021. However, vegetable prices decreased by 16.9% compared to the previous month which can be explained by seasonal price decrease (naturally grown vegetables requiring less investments and comparatively lower production costs compared to the greenhouse grown or imported ones become widely available in the market which automatically decreases the prices).

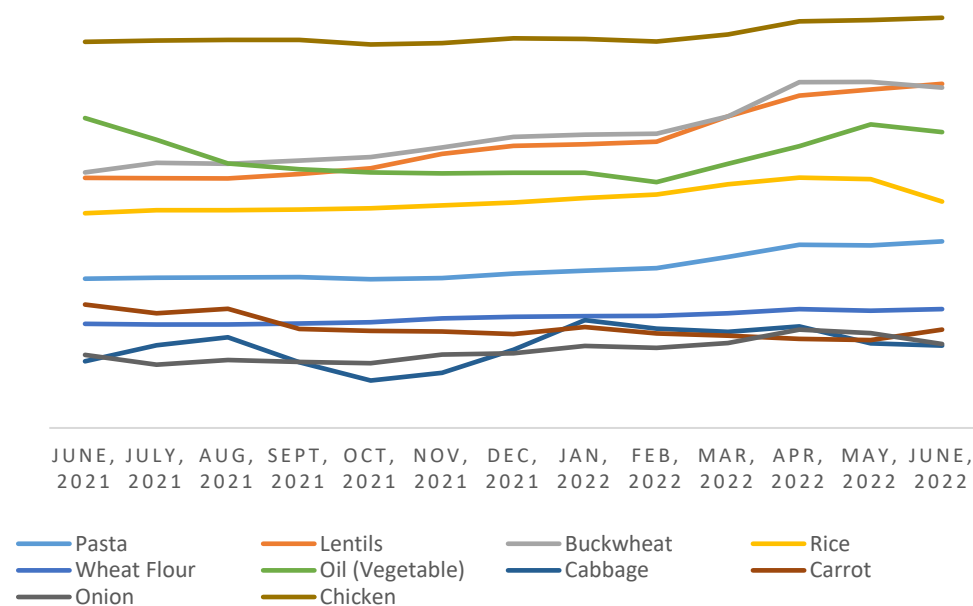
As for **"Fruits"**, consumer price index increased in June 2022 compared to June 2021 (16.2%), though compared to the previous month the CPI growth for fruits comprised 9.2%.

The second group of food highly impacted by CPI increase is **"Bread and cereals"**, namely in June 2022 the CPI for this food group increased approximately by 20% compared to this period of the previous year.

"Oils and fats" registered the lowest CPI growth in June 2022 compared to June 2021 (5.1%) and, monthly CPI change for this group of commodities was minor, comprising just 0.5%.

Further monitoring is going to be conducted to track the changes during the harvesting season and the imports of food commodities from Russia in July-August 2022.

Fig. 6: Average national prices of selected commodities (June 2022 vs June 2021, in AMD)



Source: Statistical Committee of RA

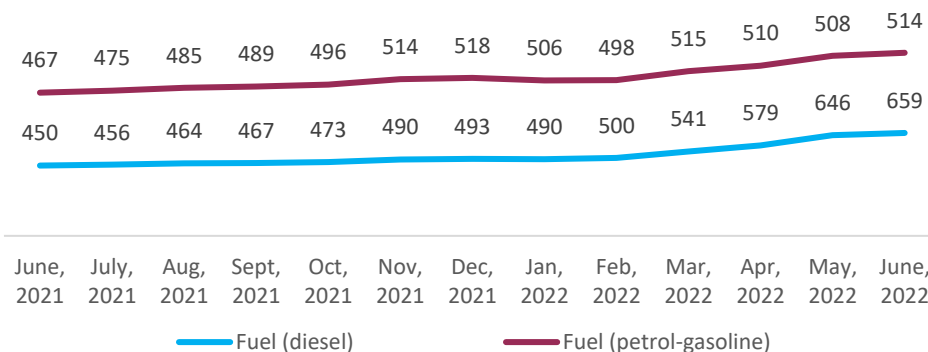


Armenia is highly dependent on the imports of petrol and gasoline (mostly from Russia) which means that inner market is extremely sensitive towards external shocks. Diesel inflation comprises 46% compared to June 2021, whereas petrol-gasoline inflation has been 10% for the reporting period. Though it is not heating period and households do not have to pay excessive bills for their utilities, agricultural works are at their peak demanding the biggest share of the production costs to allocate for fuel.

Additionally, fuel price increase makes logistics more complicated resulting in high cargo and passenger traffic tariffs. What's more, high fuel prices are going to disrupt household budgets augmenting the part of transportation costs in their budgets. If remaining constant or further rising the situation is going to be critical for HHs in Armenia, particularly for vulnerable ones.

The prices of fuel are currently at a high level (diesel by 46 percent and petrol by 10 percent) compared to June 2021. The monthly fluctuation for diesel is 2 percent and 1 percent for fuel. It is important to note that the import and export of goods to and from Armenia are basically done through Georgia (Lars) and the vehicles use diesel. Thus, this also impacts the increase of food and non-food items prices.

Fig. 7: Average national prices of fuel, June 2022 vs June 2021, in AMD



Source: Statistical Committee of RA

Table 1: Price changes of selected food commodities (mostly consumed) and fuel in May 2022 vs May 2021

Commodity	June 2021 (in AMD)	June 2022 (in AMD)	% change June 2022 vs June 2021 (+/-10%)	May 2022 (in AMD)	June 2022 (in AMD)	% change June 2022 vs May 2022 (+/-10%)
Pasta	642	802	25	785	802	2
Lentils	1075	1479	38	1456	1479	2
Buckwheat	1099	1463	33	1488	1463	-2
Rice	923	1063	15	1070	1063	-1
Wheat Flour	448	511	14	504	511	1
Oil (Vegetable)	1332	1293	-5	1305	1293	-2
Fuel (diesel)	450	660	46	646	660	2
Fuel (petrol-gasoline)	467	514	10	508	514	1

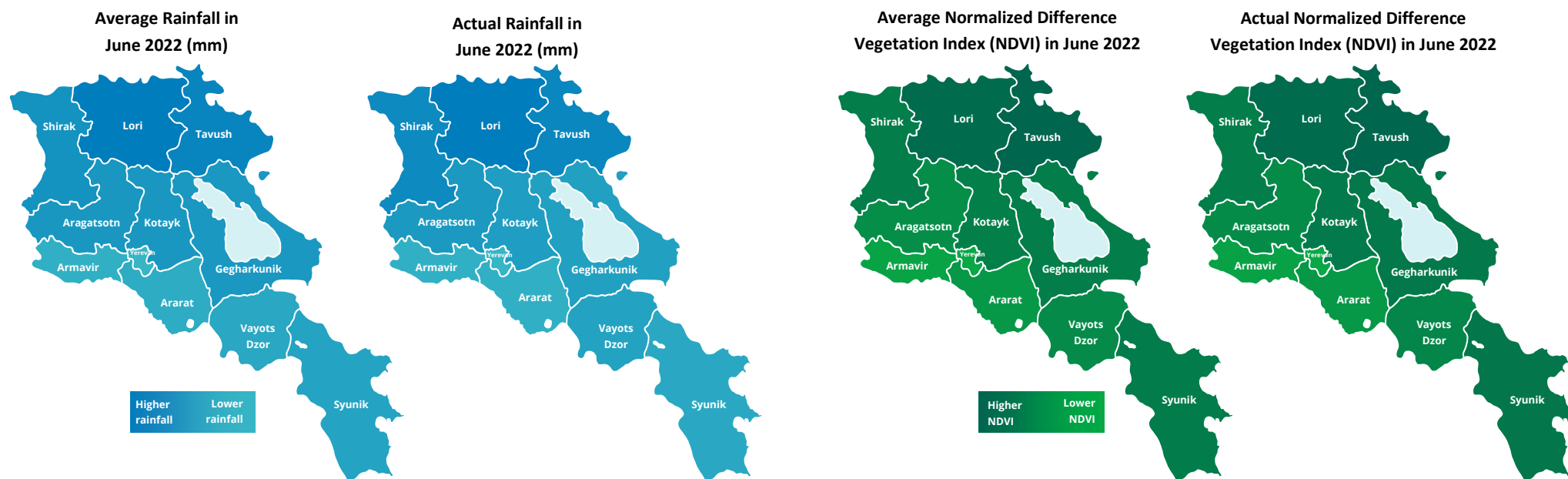
Source: Statistical Committee of RA



Food price inflation rates, Rainfall and Vegetation per regions

Climate changes, in particular the volatility of rainfall, affect agricultural production in Armenia also considering the fact that there are no established and installed irrigation systems and very often crop fields are dependent only on the generosity of rains. As per Climate Risk and Vulnerability Assessment in Armenia, high rainfall can affect the spring planting. Additionally, use of heavy farm equipment on wet soils is detrimental to soil structure and quality of crop yield. On the other hand, cropping environments appear to be most vulnerable to reducing grain yields and increasing erosion risk, if rainfall declines. In most agricultural areas of Armenia summer rainfall does not completely meet seasonal crop water requirements, thus supplemental irrigation is required for maximum productivity, particularly on sandy or compacted soils with low water-holding capacity.

Approaching the harvesting season, WFP will monitor the levels of rainfall and vegetation, as well as the volume of harvest in each region and prices of locally produced food commodities in each region in Armenia. The maps below show the average and actual levels of rainfall and vegetation per regions. As seen, the actual rainfall level was higher in June 2022 than the average expected. The highest levels are observed in Lori, Tavush and Aragatsotn. In Syunik the level of rainfall greatly decreased compared to May 2022. Vegetation is the highest in Tavush, Lori and Syunik regions (all three regions are heavily forest-covered). In these three regions the actual vegetation is higher compared to the expected average.



Source: WFP VAM Dataviz