

ECONOMIC AND MARKET PRICE MONITORING BULLETIN



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The World Food Programme carries out market analysis on monthly basis to monitor the market situation in Armenia. Observing foreign currency exchange rates (namely USD and Russian Ruble) and retail market price fluctuations WFP tries to draw possible implications on the overall socio-economic situation and purchasing power of the society. Based on the interest, the bulletin contains descriptive information about the market prices of selected food and non-food items.



WFP ARMENIA: RAM

This bulletin focuses on market prices of the period of **September 2021 – September 2022**. Main sources used for the bulletin are the Statistical Committee of the Republic of Armenia, Central bank of the Republic of Armenia and WFP Fourth Food Security and Vulnerability Assessment.

HIGHLIGHTS



Periodic escalations across the borders create and deepen uncertainty towards the country which adversely impacts economic climate and food security situation in the country.

The influx of Russian citizens and Russian capital though having a positive macro-economic impact in the short-run might fail to have multiplier effect on the Armenian economy in the long run. The increase in economic growth is not in itself inclusive.

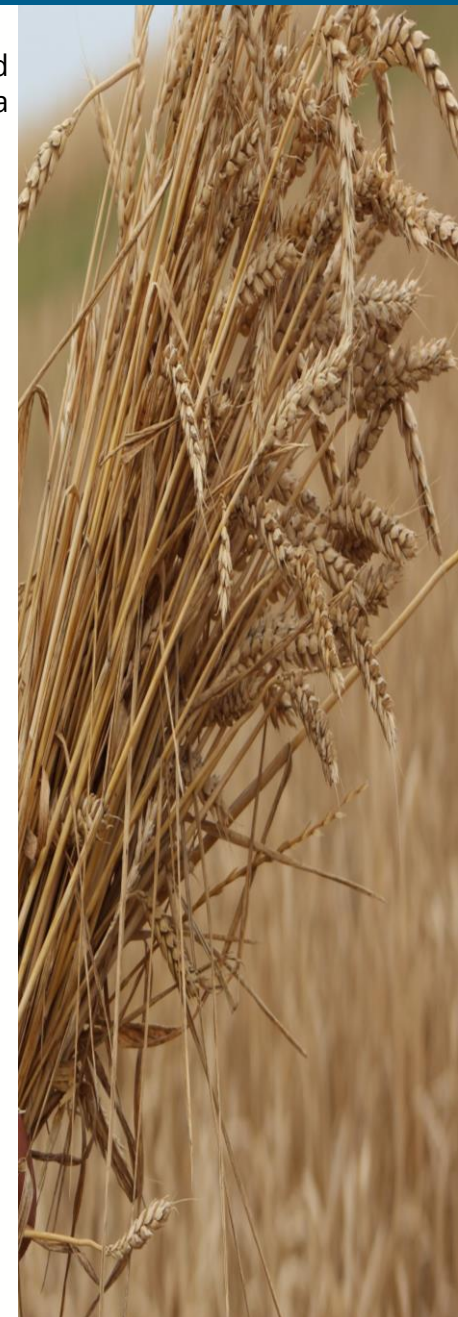
The exchange rate of USD (United States Dollar)/AMD (Armenian Dram) kept decreasing since the end of March 2022. In September 2022, the USD exchange rate was 410 AMD, and had declined by 17.7 percent compared to March 2022. Mostly maintaining upward tendency since April 2022, the exchange rate of RUB (Russian Ruble)/AMD slightly decreased in September 2022 comprising AMD 6.9 per 1 Ruble.

Price inflation exists for both food and non-food items in Armenia. Consumer Price Index increased by 9.9 percent in September 2022 compared to September 2021. Food inflation was 13.7 percent in September 2022 compared to September 2021, hence weakening food access particularly for vulnerable households.

Diesel price increase comprises 36 percent in September 2022 compared to September 2021 and inflation of petrol-gasoline is 2 percent compared to September 2021.

The highest level of Consumer Price Index (CPI) is detected in Yerevan (10.7 percent), then in Kotayk (9.7 percent) and Lori (9.5 percent), followed by Gegharkunik, Syunik and Tavush (9.3, 8.7 and 8.6 percent respectively).

The highest rates of food price inflation were seen in Yerevan (14.4 percent), Tavush (14.3 percent), Lori (14.3 percent), followed by Gegharkunik (13.9 percent) and Kotayk (13.3 percent) then by Syunik (13 percent) compared to September 2021.



GENERAL OVERVIEW

Despite economic shocks, such as the Consumer Price Index increase, high food price inflation and exchange rate fluctuations, Armenia is facing security issues which also make an impact on the economy and food security of the country.

The instable and fragile situation on the borders continues to contribute to the deterioration of security situation of Armenia, as it has negative consequences on agricultural and other sectors influencing the livelihoods in the affected communities.

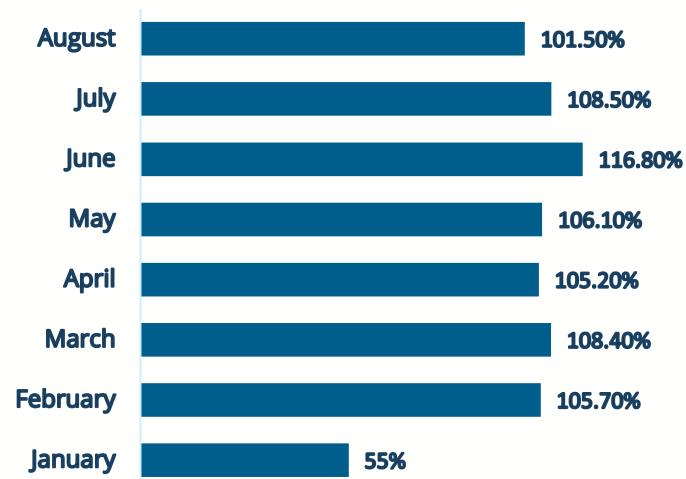
Since the end of February 2022 there was a huge influx of Russians as well as Russian capital to Armenia. As a result, economic activity level in the country has improved since the beginning of the year by 13.9 percent.

However, this rapid and shock-generated positive influence on the GDP/economic growth in Armenia is not inclusive, and it does not necessarily have a positive impact on vulnerable people, who have to cope with increased prices of goods, services and housing and are potentially prone to plunge into deeper poverty.

The influx of Russians caused rising prices of certain services to increase to a greater extent. Namely, the house rents hiked drastically, causing considerably higher revenues of the landlords. The increased rents do not have a multiplier effect through a redistribution mechanism that taxation would normally entail. Additionally, conditioned with the same reason, the number of business entities operating in Armenia increased leading to more economic activity in the country.

Therefore, it is too early to determine the overall impact of the increased growth rate and changed economic landscape in Armenia and how it will impact all layers of society over time. Moreover, these elements cannot be seen in isolation from a forthcoming global recession, continued price hikes of goods and services and other factors.

Figure 1: Economic activity in 2022, compared to previous time period in the same year, %



Source: Statistical Committee of the Republic of Armenia, www.armstat.am

Additionally, related to the increase of the uncertainty in the country people become more prone to saving money instead of spending it or investing in the long-term initiatives (for example buying real estate) - a phenomenon decreasing business and economic activity of the country.

*Armenian Statistical Committee, *External Economic Activity, Share of main trade partners in the exports of the Republic of Armenia*

**Armenian Statistical Committee, *See Net inflows and net stocks of foreign direct investment (FDI) by type of activity of the Republic of Armenia*

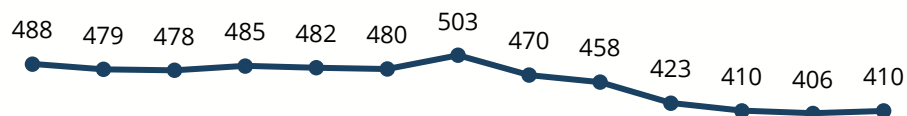
*** *Are investors being put off by Armenia's geopolitical situation? - CIVILNET*

EXCHANGE RATE, AMD vs. USD

Since the beginning of the crisis in and around Ukraine in late February 2022, the USD kept falling sharply continuing its downward tendency and recording the lowest ever value of AMD 406 per 1 USD in August, and then rising slightly it constituted AMD 410 per USD 1 in September. There are several aspects affecting the appreciation of Armenian dram against US dollar. One of them is that following the crisis in and around Ukraine almost 30 percent of Armenia's export transactions with Russia have been made in Ruble. Additionally, a number of Russian IT companies which work mainly with/for western companies relocated to Armenia, where employees get paid primarily in U.S. dollars, causing an additional influx of dollars into Armenia. Another factor was the considerable number of tourists visiting Armenia this year compared to 2021: 198,074 people and 124,522 people respectively. Moreover, starting from January till September 2022 the total number of tourists visiting Armenia was 1.24 million, which is almost twice as many as it was for the same period of 2021 (619,000 visitors).

In the light of the appreciation of the Armenian dram (20% percent within 4 months which is unprecedented), however, local export oriented businesses suffer losses as the transactions are mostly done in USD. As a result, they have to cope with the situation when their products become more expensive in export markets thus eventually impairing their competitiveness. Or by making them to reduce their exports and waiting for the stabilization of the situation, which consequently may damage the comparatively small exporting capacity of the country and slow down the economic activity and growth.

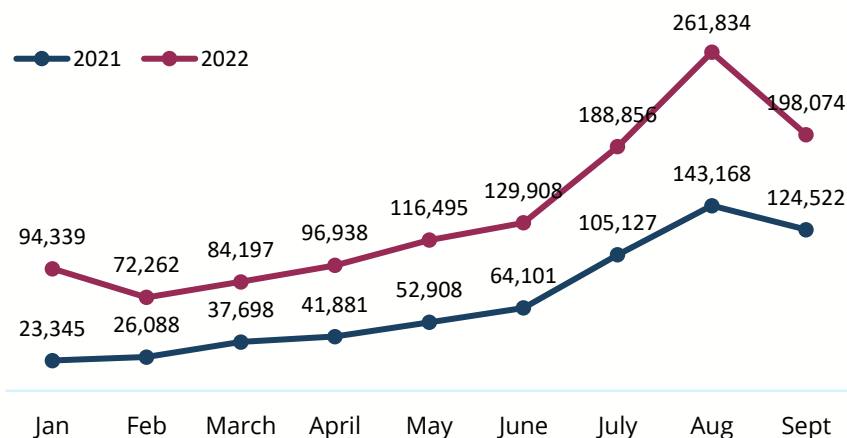
Figure 2: Exchange rate (AMD/USD), September 2021 – September 2022 (in AMD)



Sept, Oct, Nov, Dec, Jan, Feb, Mar, Apr, May, June, July, Aug, Sept,
2021 2021 2021 2021 2022 2022 2022 2022 2022 2022 2022 2022 2022 2022

Source: Central Bank of Armenia

Figure 3: Touristic inflows to Armenia in 2021 and 2022 (thousand people)



Source: The Ministry of Economy

EXCHANGE RATE, AMD vs. RUB

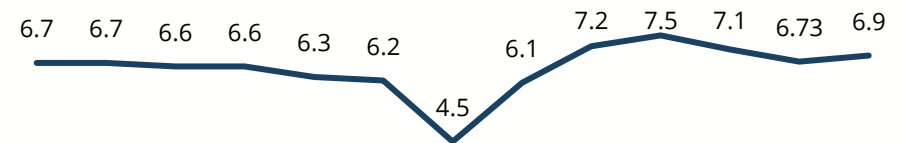
The lowest exchange rate of the Armenian Dram and Russian Ruble was recorded in March 2022 comprising AMD 4.5 for 1 Ruble. However, in a very short period Ruble started appreciating against the Armenian Dram and in September 2022 it was AMD 6.9 for 1 Ruble, which is slightly higher than it was in August: AMD 6.7 for 1 Ruble. This appreciation is primarily conditioned by the newly imposed requirement of the Russian Federation to pay for its exported fossil fuels exclusively in Russian Rubles, thus increasing demand for Ruble.

On one hand the appreciation of Ruble might seem beneficial for Armenia. For the Armenian exporting companies the devaluation of Armenian dram against Russian Ruble is advantageous in case they've fixed their contracts in Rubles. Moreover, there are many seasonal labor migrants in Russia who then transfer their earnings to their families in Armenia increasing the purchasing power for them. From this perspective, the higher the exchange rate the bigger the AMD denominated income of these families.

Additionally, in August 2022, the net inflow of private money transfers to individuals in Armenia via banking system from the Russian Federation comprised USD 296.7 million which had decreased by approximately 29 percentage points compared to July 2022, while from the US it was USD 33.2 million* decreasing by 14 percentage points compared to July 2022. On the other hand, as the Ruble is appreciating, the goods imported from Russia become more expensive for the Armenian consumers. Since Russia is Armenia's largest trade partner, the appreciation of the Ruble has both negative and positive impact on the Armenian economy. Similarly, the prices of goods imported in US Dollars are decreasing conditioned with the depreciation of the USD.

The financial flows into Armenia far outweigh the capacity of its economy to absorb them, which in its turn leads to national currency appreciation.

Figure 4: Exchange rate (AMD/Ruble), September 2021 – September 2022 (in AMD)



Sept, 2021 Oct, 2021 Nov, 2021 Dec, 2021 Jan, 2022 Feb, 2022 Mar, 2022 Apr, 2022 May, 2022 Jun, 2022 July, 2022 Aug, 2022 Sept, 2022

Source: Central Bank of Armenia

CONSUMER PRICE INDEX AND FOOD PRICE INFLATION

Consumer Price Index (CPI) and food prices in Armenia increased steadily since 2020. First, this increase was conditioned with Covid-19 outbreak, however the most striking increase of prices was detected after the escalation of the Nagorno-Karabakh conflict (especially in April 2021 – December 2021) and then the prices reached their peak because of the escalation of the conflict in and around Ukraine.

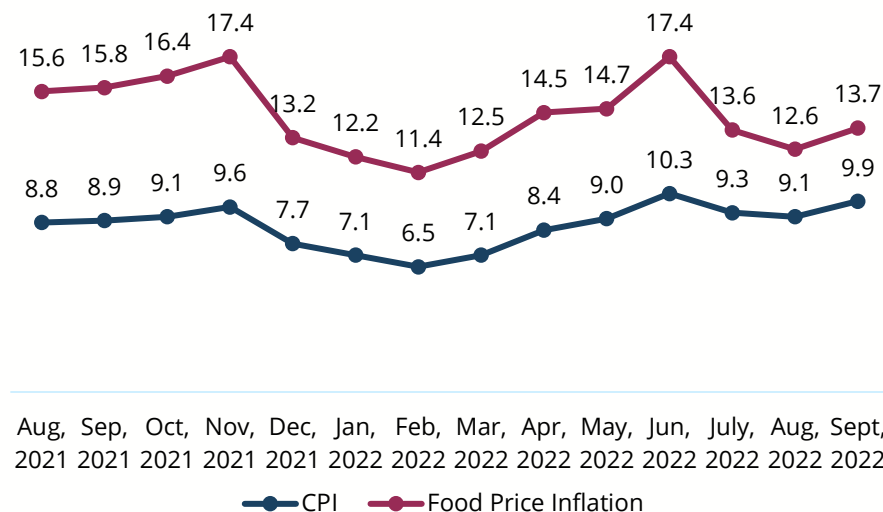
In September 2022, the CPI including food and non-food items comprised 9.9 percent compared to September 2021. Comparing to August 2022 CPI has recorded an insignificant 0.6 percent increase. In September 2022 food price inflation was 13.7 percent compared to September 2021. It showed a decrease by 3.7 percentage points compared to June 2022 when the highest food price inflation was recorded from the beginning of the year at the same time demonstrating negligible (0.4 percent) increase compared to August 2022.

Despite the observed fluctuations the prices continue remaining relatively high and putting pressure on already strained purchasing power of particularly vulnerable households in Armenia, lowering their standards of living.

The monitoring of food and non-alcohol beverages in urban areas of the regions showed the highest price inflation in Yerevan (14.4 percent), Tavush (14.3 percent), Lori (14.3 percent), followed by Gegharkunik (13.9 percent) and Kotayk (13.3 percent) then by Syunik (13 percent) compared to September 2021.

As for the CPIs, the highest level is detected in Yerevan (10.7 percent), then in Kotayk (9.7 percent) and Lori (9.5 percent), followed by Gegharkunik, Syunik and Tavush (9.3, 8.7 and 8.6 percent respectively).

Figure 5: Consumer Price Index and Food Price Inflation, September 2021-September 2022, %



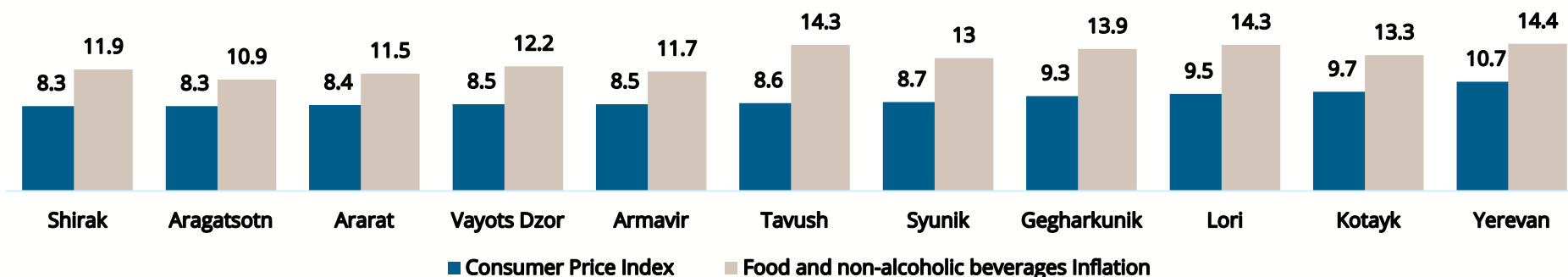
Source: Statistical Committee of the Republic of Armenia *Consumer Price Index in the Republic of Armenia January-August 2022*

CONSUMER PRICE INDEX AND FOOD PRICE INFLATION

High and rising prices are detrimental for the whole economy as they provoke population to adopt various coping mechanisms such as borrowing money or spending their savings. The latter in particular has further impact on the economy resulting in shrinking supply of money, thus rising interest rates and diminishing investments. According to the Food Security Vulnerability Assessment 4th nationwide Food Security and Vulnerability Assessment carried out by the World Food Programme in May-June 2022, 40 percent of the households being interviewed mentioned spending their savings as a coping strategy in case of financial hardships. Three regions where the majority of the households mentioned spending savings as the most preferable coping strategy were Yerevan (33.8 percent), Kotayk (9.7 percent), and Gegharkunik (9 percent). Interestingly, Yerevan and Kotayk are characterized with both high CPI and food and non-alcoholic beverages prices. One third of the Armenian population is engaged in stress coping strategies meaning they sell household assets, spend savings, borrow money, or purchase food on credit to afford to buy food. If excluding Yerevan, Ararat (10.1 percent), Kotayk (9.4 percent), Lori (8.6 percent), Shirak (8.4 percent) are the leading regions with the highest proportion of population applying stress coping strategies. On the other hand, about 39 percent of population in Armenia is engaged in crisis coping strategies to obtain food, meaning that these families reduce non-food expenses on health and education, sell productive assets or means of transport to be able to obtain food or they are dependent on food assistance and/or support from neighbors and relatives as the only food source. According to the deployed crisis coping strategies Shirak (9.8 percent), Lori (8.4 percent), Armavir (8.4 percent) and Kotayk (7.6 percent) are the leading ones.

These coping mechanisms infer depleting assets to meet one of the fundamental needs of a human being – food. Additionally, asset depletion means that the time when these households will run out of these assets is approaching and they might appear in an acute need of food in the beginning of winter considering also their winterization expenses.

Figure 6: Consumer Price Index and Food Price Inflation per region, September 2022, %



Source: Statistical Committee of the Republic of Armenia

PRICE INFLATION OF SELECTED FOOD GROUPS

Among the essential food groups only “Oils and fats” and “Fruits” groups have shown tiny price decrease compared to August 2022 (respectively by 0.8 and by 0.6 percent). “Meat” and “Fish and seafood” groups haven’t recorded any price changes, while “Vegetables” have experienced 3.8 percent price increase. This increase might be conditioned with the end of harvesting season and proliferation of greenhouse grown vegetables in the market.



Considering annual inflation rates of various food groups, it becomes clear that “Fruits” is the group with the highest inflation rate (21 percent). “Bread and cereals” recorded the second highest annual inflation rate of 19.4 percent compared to September 2022. “Milk, cheese and eggs” is the third group demonstrating higher inflation rate of 12 percent compared to September 2021 followed by “Meat” with 11.9 percent of price increase.

Figure 7: Consumer prices of selected food groups, September 2022 vs September 2021, %

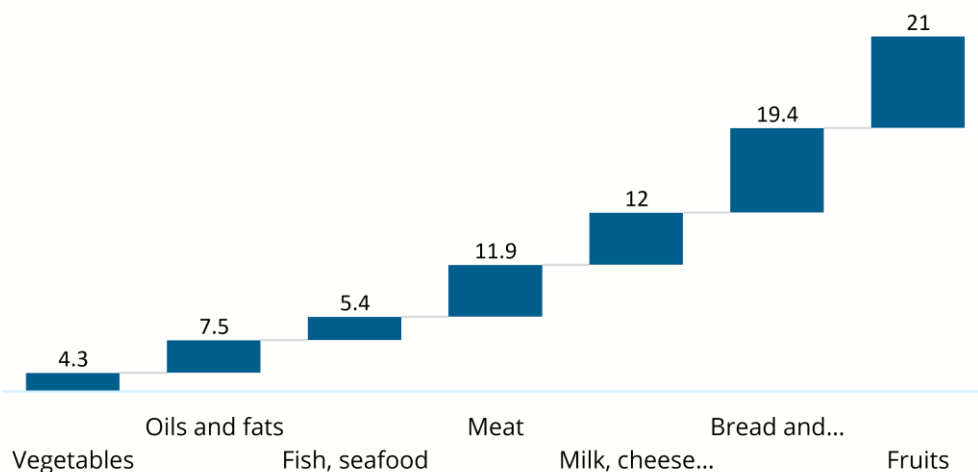
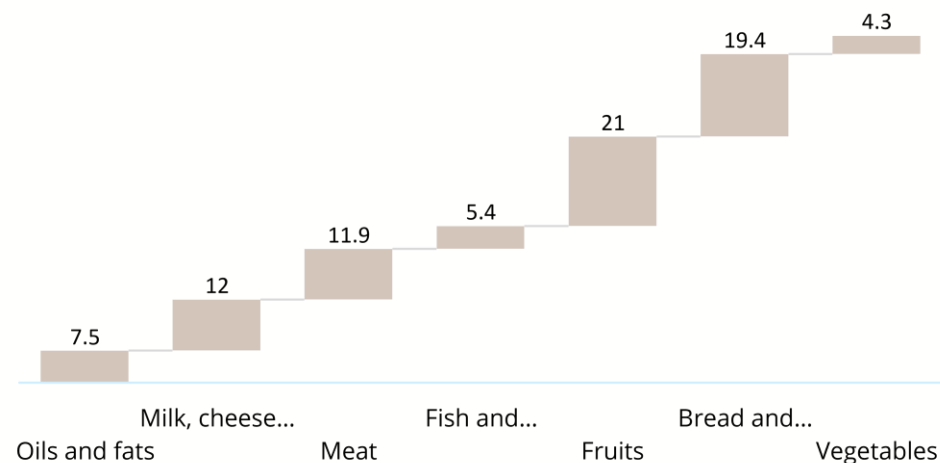


Figure 8: Annual Inflation of selected food groups, %



Source: Statistical Committee of the Republic of Armenia

MARKET PRICES OF SELECTED FOOD COMMODITIES

Among the most consumed food commodities lentils have the highest annual inflation rate of 35 percent, followed by pasta, recording price increase of 28 percent compared to September 2021. Buckwheat is the third food item with comparatively high annual inflation rate of 20 percent. Both lentils and buckwheat are imported mainly from Russia, and the increased prices are likely tied to mainly appreciation of Russian Ruble and fuel price hikes.

On the other hand, cabbage and carrot that are produced locally, have experienced dramatic decrease of prices by 51 and 22 percent respectively.

Analysis of monthly price inflation revealed that prices of lentils, buckwheat and rice have not changed. Additionally, the prices of pasta and chicken has decreased by 1 percent compared to August 2022. Oil has become cheaper by 3 percent compared to August 2022.

Table 1: Annual and monthly inflation of selected food items

Commodity	September 2021 (in AMD)	September 2022 (in AMD)	% change September 2022 vs September 2021 (+/-10%)	August 2022 (in AMD)	September 2022 (in AMD)	% change August 2022 vs September 2022 (+/-10%)
Pasta	648	826	28	834	826	-1
Lentils	1,091	1,471	35	1,476	1,471	0
Buckwheat	1,150	1,383	20	1,389	1,383	0
Rice	939	1,028	10	1,027	1,028	0
Wheat Flour	449	497	11	494	497	1
Oil (Vegetable)	1,112	1,131	2	1,163	1,131	-3
Chicken	1,668	1,692	2	1,712	1,692	-1
Fuel (diesel)	467	634	36	639	634	-1
Fuel (petrol-gasoline)	489	500	2	500	500	0

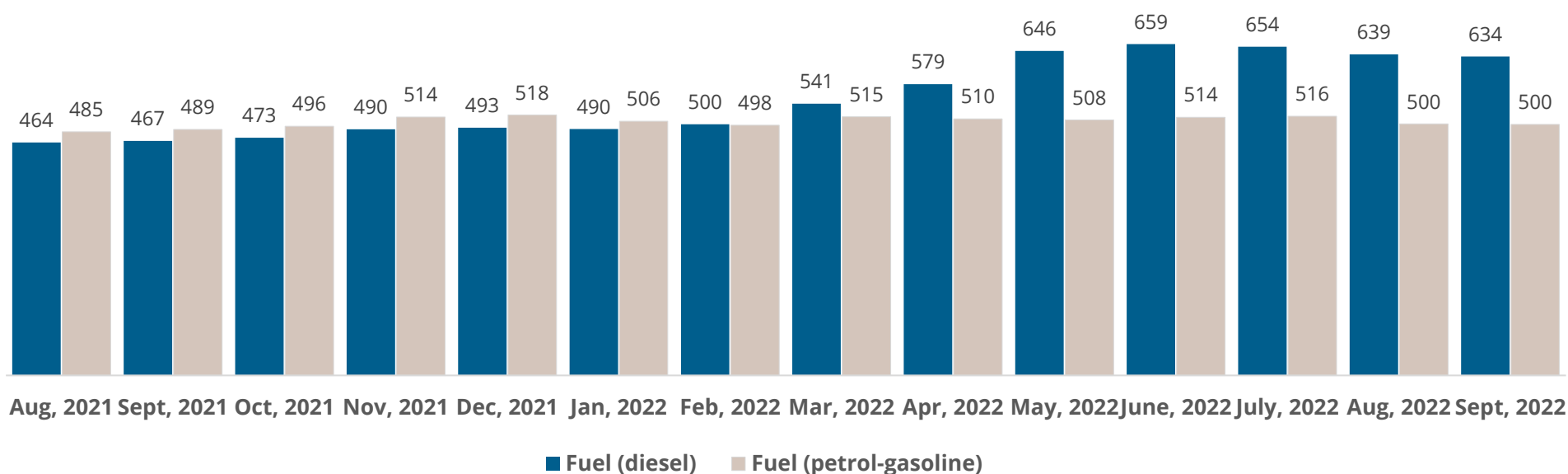
Source: Statistical Committee of the Republic of Armenia

MARKET PRICES OF FUEL

Rising oil prices globally connected with the situation in and around Ukraine had its impact on fuel prices in Armenia too. Diesel fuel price increase in September comprised 36 percent compared to September 2021, whereas petrol price increase was 2 percent for the same period. One of the negative consequences of the situation is that fuel price increase has led to higher cargo and passenger traffic tariffs. Moreover, high fuel prices are going to disrupt household budgets augmenting the part of transportation costs in their budgets. If remaining constant or rising further, the situation is going to be critical for the households in Armenia, particularly for the vulnerable ones considering the approaching heating season.

The monthly fluctuation for diesel is -1 percent meaning that diesel has become slightly cheaper than in August 2022, whilst petrol prices have not changed. It is important to note that a major part of import and export of goods to and from Armenia are basically done through Georgia (Upper-Lars border crossing point) and the trucks predominantly have diesel engines. Thus, this also impacts the increase of food and non-food items' prices.

Figure 9: Price of fuel (petrol-gasoline and diesel), AMD



Source: Statistical Committee of the Republic of Armenia

FINANCIAL FLOWS AND SELF-SUFFICIENCY RATIO

Being a country importing more goods and services than exporting, as well as having food and fuel markets heavily dependent on imports primarily from the Russian Federation, Armenia's economy is vulnerable to external shocks. Any shocks or disruptions in the global economy have immediate and often negative effect on the Armenian economy.

Among the members of Commonwealth of Independent States (CIS), Armenia has the most extensive trade turnover with Russia. As for the exports and imports of Armenia, the share of the Russian Federation in 2020 was the biggest among all other trade partner countries comprising 26.8 percent and 32 percent, respectively. This means that any shifts in the Russian economy impacts the Armenian economy with almost immediate effect, having potentially negative repercussions on different layers of society and the country overall.

Additionally, the self-sufficiency ratio of Armenia of the main essential food items is low and for some of them it is even close to nil. This means that the Armenian market is very dependent on external factors (global prices, supply, exchange rates, etc.) and is too sensitive towards external shocks, which makes the country quite vulnerable. This situation is vital from the of food security perspective too, especially paying attention to its food availability and accessibility components. Namely, disruption of the global food systems may jeopardize food availability in the country, which may lead to exponentially growing prices undermining food accessibility among various groups of population.

Table 2: Self-sufficiency ratio of RA per selected food commodities

Food Item	Self - sufficiency ratio
Fish	109.0%
Potato	101.1%
Cabbage	100.5%
Onion	91.4%
Carrot	78.6%
Wheat	24.4%
Chicken	23.9%
Lentils	5.9%
Oil	0.9%
Rice	0



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Food and basic needs price information can be found in WFP's online database:
dataviz.vam.wfp.org