

MARKET PRICE MONITORING BULLETIN



ISSUE NO.7: SEPTEMBER 2022

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: VAM

This bulletin focuses on market prices of the period of **August 2021 – August 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 Analysis.

HIGHLIGHTS

The exchange rate of USD (United States Dollar)/AMD (Armenian Dram) kept decreasing since the end of March 2022, declining by 18.5 percent in August 2022 compared to March 2022.

Though demonstrating and mostly maintaining upward tendency since April, exchange rate of RUB (Russian Ruble)/AMD has slightly decreased in August comprising AMD 6.73 per Ruble 1 on average compared to AMD 4.77 per Ruble 1 in March.

Armenia is still experiencing a challenging price inflation of both food and non-food items. Consumer Price Index increased by 9.1 percent compared to August 2021. Food inflation was 12.6 percent in August 2022 compared to August 2021, hence weakening food access particularly for vulnerable households. The highest price increase among food groups in August 2022 was for bread and cereals: 20.2%. The increase of food and non-food prices in combination with other factors, such as the price increase of fuel, agricultural goods, fertilizers, services, etc., is affecting the population in Armenia, especially the most vulnerable households diminishing their purchasing power.

The highest rates of food price inflation were seen in Tavush (13.4%), Yerevan (13.3%), Gegharkunik (13.1%), Lori (13.1%) and Syunik (12.4%) regions in August 2022 versus August 2021. The lowest rate of food price inflation was observed in Aragatsotn (9.9%) for the reporting period.

Diesel price inflation comprises 38 percent compared to August 2021 and inflation of petrol-gasoline is 3 percent comparing to August 2021.

Factors influencing price hikes continue to be the volatile political situation in the world entailing mass migration waves, 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 and energy prices globally, limited state regulation mechanisms to curb inflation and weak shock responsiveness.



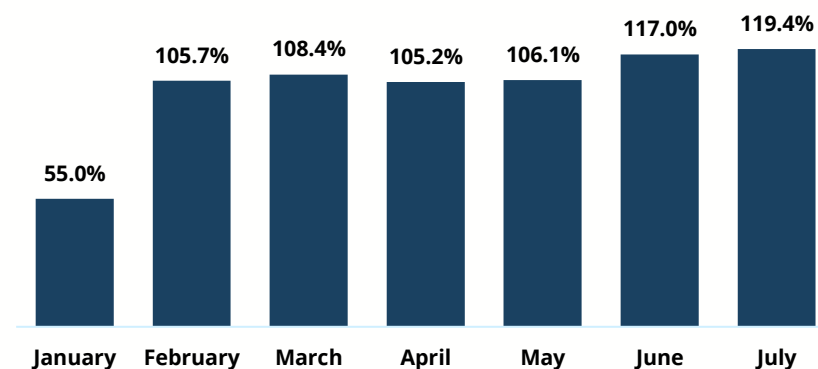
Having food and fuel markets heavily dependent from imports basically from the Russian Federation, Armenia's economy becomes fragile and exposed to external shocks. Current situation in and around Ukraine breeds a fertile ground for economic instability and high fluctuation of exchange rates in Armenia, jeopardizes food security and generates other potential risks and predicaments for Armenia's small economy. Among the members of Commonwealth of Independent States (CIS), the most extensive trade turnover Armenia has with Russia (in 2020 the export to Russia comprised USD 680,357,200*, whereas the total amount of imports from Russia in 2020 was USD 1,495,201,900). As for exports and imports of Armenia, the share of Russian Federation in 2020 was the biggest among all other trade partner countries comprising 26.8 percent and 32. percent, respectively. Additionally, huge number of economic migrants in Russia intensifies dependency level and economic vulnerability of Armenia. This means that any shifts in the Russian economy reflects on the Armenian one having potential negative repercussions on different layers of society and the country overall.

Potentially fragile situation in and around Nagorno-Karabakh, as well as in all the regions of Armenia bordering with Azerbaijan contributes to the instability in the region. The periodic tensions across the borders destabilize regional situation which adversely impacts overall economic climate in Armenia resulting in declined foreign direct investments (FDIs) since business investors classify the country as high-risk (for example, in 2018 FDIs in Armenia counted to be AMD 128,846 million, in 2019 they substantially decreased to AMD 48 802.4mln and in 2020 the FDIs in Armenia amounted to AMD 22,813.1mln**).

The economic activity level in Armenia has improved since the beginning of the year by 19.4% compared to July 2021 basically due to the influx of Russians and Russian companies being established in Armenia. However, the positive influence on the GDP/ economic growth in Armenia is not inclusive, and doesn't have a positive impact on vulnerable people, who are facing increased prices of goods, services and housing.

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. However, the housing market is mostly based on informal relations as parties usually do not have contractual agreements and the generated revenue from the house rents is only partially officially registered and taxed. 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. Nevertheless, 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, as these elements cannot be seen in isolation from a forthcoming global recession and continued price hikes of goods and services.

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

*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*

EXCHANGE RATE, CONSUMER PRICE INDEX AND FOOD PRICE INFLATION

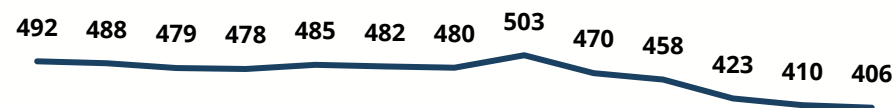
Exchange rate, AMD vs. USD and AMD vs. RUB

Since the beginning of the crisis in and around Ukraine in late February 2022, the USD kept falling sharply continuing its downward tendency and in August it recorded the lowest ever value: 405.72 AMD per 1 USD.

As for Armenian Dram and Russian Ruble, the lowest exchange rate was recorded in March comprising 4.5 AMD for 1 Ruble. However, in a very short period Ruble started to appreciate against the Armenian Dram and in August it was 6.73 AMD for 1 Ruble, which is slightly lower than it was in June: AMD 7.08 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, therefore increased demand for Ruble.

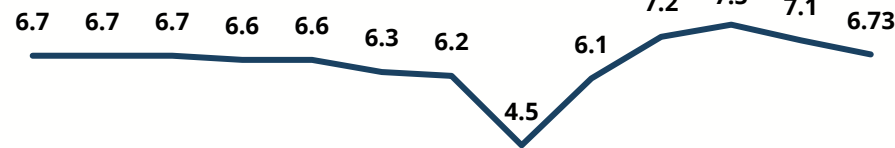
On the one hand the appreciation of Ruble might seem beneficial for the Armenian population, as there are many seasonal labor migrants in Russia who then transfer their earnings to their families in Armenia increasing their purchasing power. From this perspective, the higher the exchange rate the bigger the AMD denominated income of these families in Armenia. In July 2022, net inflow of private money transfers to individuals in Armenia via banking system from the Russian Federation amounted to USD 415,842,000 while from the US it was USD 38,880,000*. On the other hand, as the ruble value is increasing, the imported goods become more expensive for the Armenian consumer, and as 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 for US Dollars are sometimes decreasing because of the depreciation of the USD against the Armenian Dram. If shops are adjusting the prices accordingly (lowering them), the consumers may change purchasing behavior and consume more of the cheaper products than the Russian imported ones.

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



Aug, 2021	Sept, 2021	Oct, 2021	Nov, 2021	Dec, 2021	Jan, 2022	Feb, 2022	Mar, 2022	Apr, 2022	May, 2022	June, 2022	July, 2022	August, 2022
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Figure 3: Exchange rate (AMD/Ruble), August 2021 – August 2022 (in AMD)



Aug, 2021	Sept, 2021	Oct, 2021	Nov, 2021	Dec, 2021	Jan, 2022	Feb, 2022	Mar, 2022	Apr, 2022	May, 2022	Jun, 2022	July, 2022	August, 2022
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Source: Central Bank of Armenia

EXCHANGE RATE, CONSUMER PRICE INDEX AND FOOD PRICE INFLATION

Consumer price index and food price inflation

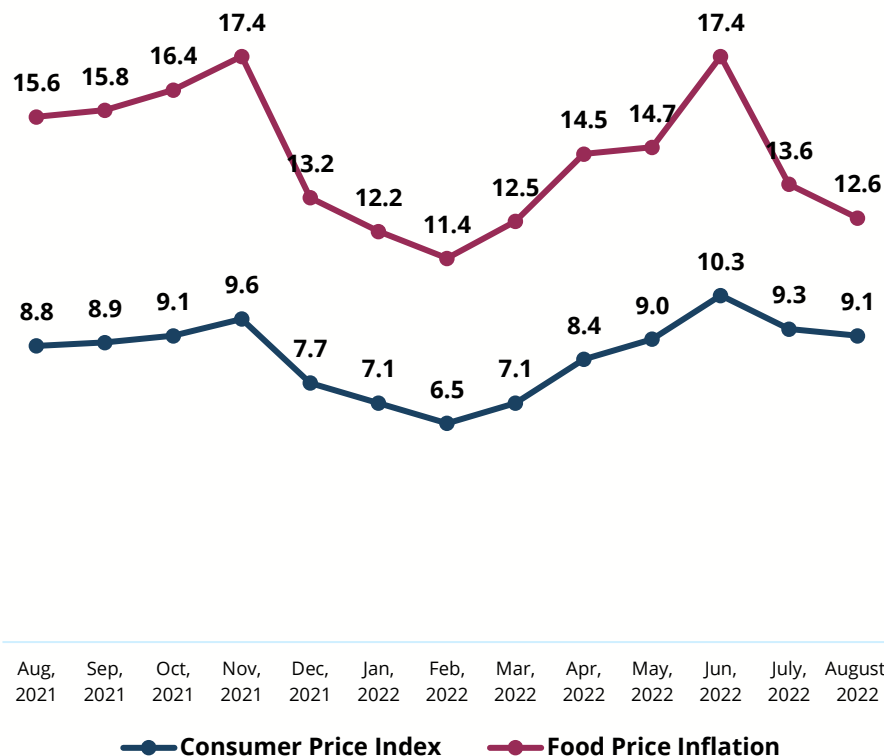
Consumer Price Index (CPI) and food prices in Armenia increased steadily since 2020. First, this increase was conditioned by Covid-19 outbreak, however the most striking increase of prices was detected after the escalation of Nagorno-Karabakh conflict (especially in April 2021 – December 2021) and then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

In August 2022, the Consumer Price Index (CPI) including food and non-food items comprised 9.1 percent compared to August 2021. Compared to July 2022 it is an insignificant decrease. Food price inflation in August 2022 was 12.6 percent compared to August 2021. It showed a decrease by 4.6 percent compared to June 2022. Though a slightly decreasing tendency is observed in prices across the country, they remain relatively high and put pressure on the already challenged purchasing power of particularly vulnerable households in Armenia, lowering their standard of living.

CPI of non-food items in August 2022 comprised 8.2 percent compared to August 2021. It constituted 0.4 percent compared to July 2022, meaning that the prices of food items grew at a higher rate than that of non-food items.

Monitoring CPIs and prices of food and non-alcohol beverages in urban areas of the regions the highest price inflation of food and non-alcohol beverages compared to August 2021 was seen in Tavush (13.4 percent), Yerevan (13.3 percent), followed by Lori (13.1 percent) and Gegharkunik regions (13.1 percent) and then by Syunik (12.4 percent). As for the CPIs the highest level is noticeable in Yerevan (9.9 percent), then in Kotayk and Gegharkunik (8.9 percent each), followed by Lori, Syunik and Tavush (8.8, 8.2, 8.1 percent respectively).

Figure 4: Consumer Price Index and Food Price Inflation, August 2021-August 2022, %



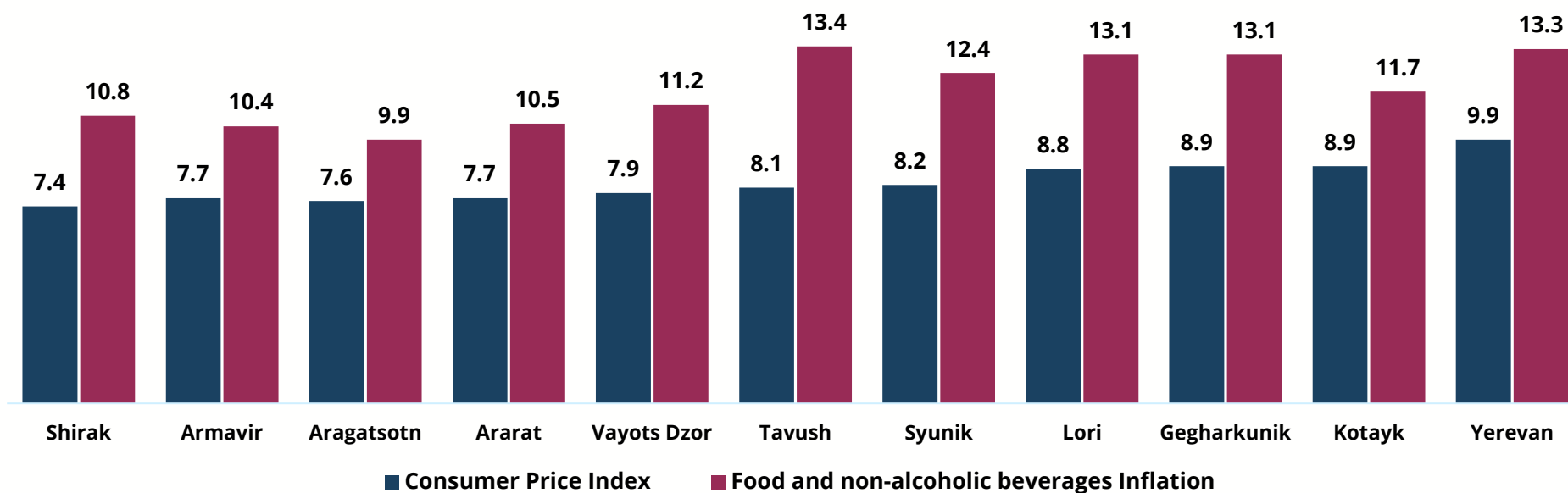
Source: Central Bank of Armenia *Consumer Price Index in the Republic of Armenia January-August 2022*

EXCHANGE RATE, CONSUMER PRICE INDEX AND FOOD PRICE INFLATION

Consumer price index and food price inflation

High and rising prices are unquestionably 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. As a result, real GDP contraction becomes inevitable. According to the 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 livelihood coping strategy in case of financial hardships. Three regions where the majority of 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 Gegharkunik are characterized with both high CPI and food and non-alcoholic beverages prices, while in Kotayk CPI was comparatively high. Additionally, in Gegharkunik people largely apply borrowing debts as a coping mechanism to obtain food.

Figure 5: Consumer Price Index and Food Price Inflation per region, August 2022, %



Source: Statistical Committee of the Republic of Armenia

MARKET PRICES OF SELECTED FOOD COMMODITIES AND FUEL

Among the essential food groups only “Vegetables” group has shown price decrease compared to August 2021 (-5.5 percent). On the other hand, “Bread and cereals” group has the highest inflation rate (20.2 percent) compared to August 2021 followed by “Fruits” group (16.5 percent). The third food group with comparatively higher prices is “Milk, cheese and eggs” (13.6 percent). However, comparison of price inflation of these food groups to the previous month shows that “Bread and Cereals” and “Fish and seafood” food groups have experienced no price changes, “Vegetables” had tiny 0.2 percent inflation rate, while commodities included in “Fruits” and “Oils and fats” recorded 5.7 and 2.3 percent price decrease respectively.

As one of the most consumed commodities, lentils, has the highest annual inflation rate (38 percent) compared to August 2021. The second food commodity experiencing remarkable inflation is pasta (29 percent) compared to August 2021. The third widely consumed commodity with comparatively higher inflation rates is buckwheat (22 percent). Both lentils and buckwheat are heavily imported from Russia, and the increased price is likely tied to the appreciation of Russian Ruble. However, if comparing prices of buckwheat in August 2022 and July 2022, 4 percent decrease has occurred.

Wheat flour prices increased by 11 percent in August 2022 compared to August 2021 while rice has experienced 10 percent price increase in August 2022. However, the prices of the above-mentioned commodities should be monitored after the import from Russia in autumn. Cabbage and carrot had annual price reduction by 65 and 36 percent, respectively. Both products are locally produced.

Observation of monthly inflation fluctuations demonstrated that all food commodities experienced price reduction besides carrot which had 26 percent price increase compared to July 2022, lentils and pasta (1 percent each). The highest monthly price reduction was detected for cabbage, oil and buckwheat (-13, -7 and -4 percent respectively).

Figure 6: Consumer prices of selected food groups, August 2022 vs August 2021, %

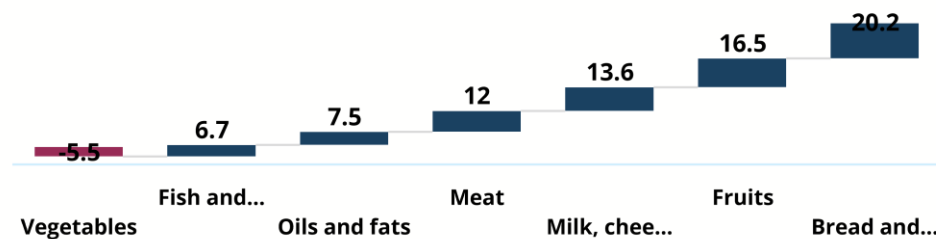
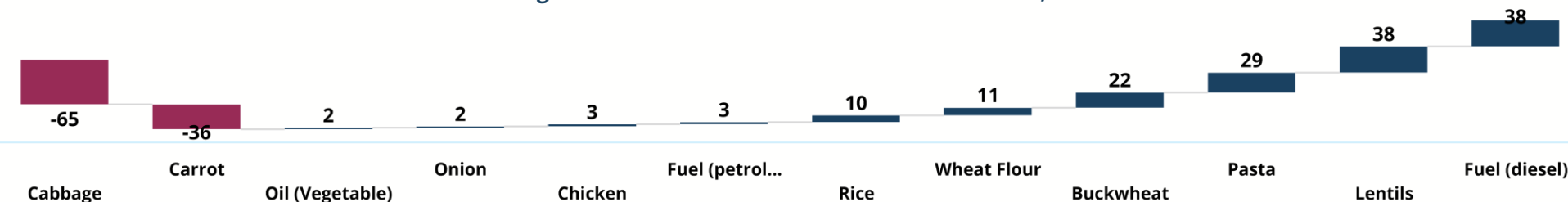


Figure 7: Annual Inflation of selected food items, %



Source: Statistical Committee of the Republic of Armenia

MARKET PRICES OF SELECTED FOOD COMMODITIES AND FUEL

Being highly dependent on the imports of fossil fuels (mostly from Russia) means that the inner market in Armenia is extremely sensitive towards external shocks. Diesel fuel inflation comprised 38 percent compared to August 2021, whereas petrol inflation has been 3 percent for the reporting period. Although the heating season has not yet started in Armenia and households do not have to pay excessive bills for utilities, agricultural works are at their peak demanding the biggest share of the production costs to allocate for fuel. Additionally, the fuel price increase also leads 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.

The monthly fluctuation for diesel is -2 percent meaning that diesel has become slightly cheaper than in July 2022. Similarly, petrol prices have undergone minor decrease of 3 percent. It is important to note that the major part of import and export of goods to and from Armenia are basically done through Georgia (Higher-Lars border crossing point) and the vehicles use diesel. Thus, this also impacts the increase of food and non-food items prices.

Table 1: Annual and monthly inflation of selected food items

Commodity	August 2021 (in AMD)	August 2022 (in AMD)	% change August 2022 vs August 2021 (+/10%)	July 2022 (in AMD)	August 2022 (in AMD)	% change July 2022 vs August 2022 (+/10%)
Pasta	647	834	29	822	834	1
Lentils	1,073	1,476	38	1,460	1,476	1
Buckwheat	1,136	1,389	22	1,448	1,389	-4
Rice	936	1,027	10	1,042	1,027	-1
Wheat Flour	445	494	11	501	494	-1
Oil (Vegetable)	1,137	1,163	2	1,246	1,163	-7
Chicken	1,668	1,712	3	1,736	1,712	-1
Fuel (diesel)	464	639	38	654	639	-2
Fuel (petrol-gasoline)	485	500	3	516	500	-3

Source: Statistical Committee of the Republic of Armenia

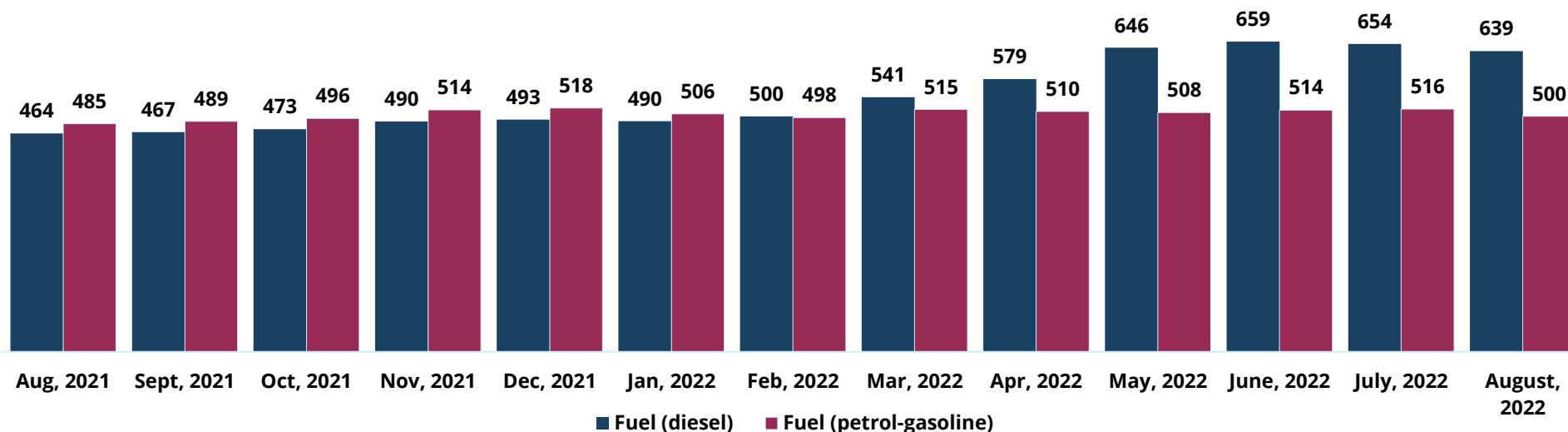
MARKET PRICES OF SELECTED FOOD COMMODITIES AND FUEL

Overall, the self-sufficiency ratio of Armenia for the majority of 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 to be considered from the perspective of food security 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 very high prices undermining food accessibility among various groups of population. Considering geopolitical volatile landscape and Armenia's inclination to both internal and external shocks the food security situation here becomes seriously fragile. Above discussed price fluctuations are yet another evidence of that indicating the urgent need of appropriate measures to enact, to lessen the country's exposure to shocks and dependency from external factors.

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

Figure 8: Price of fuel (petrol-gasoline and diesel), AMD



Source: Statistical Committee of the Republic of Armenia