
Price Rises Begin To Bite In Armenia

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New president and government damaged by steep price hikes.

Armenia's new government is on the defensive following a 40 per cent rise in the price of gas which will hit consumers hard.

The new price, 27 US cents per cubic metre compared with the previous 19 cents, is the result of an end to two years of government subsidies, and together with rising food costs, is hurting the poorest members of society.

Sixty-seven-year-old grandmother Hasmik falls into this vulnerable category. Every morning, she sweeps the streets outside local shops in the capital Yerevan, so as to earn the money she needs to supplement her meagre pension.

"Ah, my girl, when they put up my pension at the start of the year I was very happy that I was getting 15,000 drams [around 50 dollars] rather than 9,350 drams," she told IWPR's contributor. "But then food got more expensive, and now they say the price of gas is going up. Next it will be electricity and water.

"No one needs me - my children aren't helping any more, nor is the government, so that's why I'm sweeping the streets to support myself. But when winter comes, all my money will go on heating."

Hasmik lowered her grey head and carried on sweeping.

According to Armenia's national statistics agency, the price of food products, alcohol and tobacco has gone up seven per cent since the beginning of the year, non-food items have seen 1.7 per cent inflation over that period, and utility prices have gone up 6.3 per cent.

In April 2006, the government introduced a temporary subsidy on natural gas to offset the effect on consumers of a rise in the price of gas imported from Russia. The authorities initially intended to keep the subsidy in place until the end of 2008, but the funds allocated for it have run out as gas import volumes were higher than anticipated.

The end of the subsidy coincided with the start of the presidency of Serzh Sarkisian - who came to power in a controversial election in February - and the appointment of a new government.

New prime minister Tigran Sarkisian (no relation of the president) was forced to announce the news of the end of the subsidy and the consequent rise in gas prices at the first press briefing he gave, in mid-April.

The public will not feel the full extent of the change until they get their winter heating bills. To cushion the blow, Sarkisian announced that the government was to spend 3.9 million dollars on alleviating the cost to 130,000 families currently on poverty benefits.

Vardan Bostanjian, a parliamentary deputy with the pro-government Prosperous Armenia party, admitted the authorities found themselves in a difficult situation.

"Armenia doesn't have the financial or budgetary resources to mitigate the difficult situation caused by the rise in prices," he said.

Economist Eduard Aghajanov argued that the gas subsidy was misconceived from the start because it did not address the needs of the poor. "The main beneficiaries were the well-off because they use more gas for their daily needs," he said.

Another economist, Tatul Manaserian, warned that the prices of other items were about to take off. "The end of subsidies on gas rates is leading to a chain reaction, which is causing a rise in the price of agricultural produce and transport fares," he explained.

Most of Yerevan's shared minibuses and taxis run on compressed natural gas, which has led to predictions that the fares they charge will go up.

An inter-departmental commission in the capital is already discussing a possible fare rise. In other areas of Armenia, fares have already risen by 50 per cent.

Prime Minister Sarkisian has commissioned a report on whether the country's 214 gas filling stations are artificially inflating their prices in order to rake in profits.

The price rises could not have come at a worst time for the new government, which is trying to regain the public's trust after the political crisis that hit the country in February and March.

"My salary has stayed exactly the same time and prices just keep on rising," said 35-year-old single mother Marina. "Now we are waiting for gas prices to rise, then the price of everything else. I feel completely unprotected in this state."

Economist Eduard Aghajanov predicted that annual inflation would reach nine or ten per cent as a result of the price rises. It is already exceeding government forecasts.

Energy Minister Armen Movsisian said on Public Television that the government was doing everything in its power to ensure electricity prices did not rise.

However, the worst may yet to be come.

Alexei Miller, head of the Russian gas monopoly Gazprom, Armenia's main supplier, is due in Yerevan soon for negotiations on next year's price.

Gazprom has agreed not to put up its prices before then, but Armenians are bracing themselves for an increase from next January that would inflict more pain on consumers.
