
Armenia : Currency Devaluation Leaves Consumers Feeling Uneasy

By Haroutiun Khachatryan
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Two days after Armenia's Central Bank let the dram float against the dollar, an uneasy calm has returned to Yerevan after a round of panic buying cleaned many stores out of basic food items.

At the close of trading on March 5, the dram stood at 366.38 against the dollar, marking a slight gain from its previous close of 372.95. The rate represents just under a 20 percent change from March 3, when the Central Bank stopped trying to keep the Armenian currency steady.

A few hours after the announcement, Armenians went on a collective buying spree. Staples -- such as sugar, vegetable oil, macaroni, and rice -- quickly disappeared from several Yerevan grocery stores visited by a EurasiaNet reporter. In other stores, clerks refused to sell the items until prices were revised to reflect the new dollar-dram exchange rate.

Television news reports showed that some shops were closed for several hours "for technical reasons," while others were crowded by people trying to buy as much food as possible.

By March 5, the situation appeared to have calmed. The owner of one Yerevan grocery store told EurasiaNet that some items, such as imported juices, remain at previous prices; others, though, have increased by 10 percent at the supplier's request. Another grocery store owner noted that new, higher-priced supplies of sugar and flour were selling slowly, and described shoppers as "quite angry."

For the government, trying to keep a lid on resentment has become a top priority. Prime Minister Tigran Sargsyan, a former head of the Central Bank, appeared on public television late on March 4 to urge viewers to avoid a panic, which, he alleged, could spark a vicious cycle of escalating prices.

Armenia's price control agency, the State Commission for Protection of Economic Competition, also tried to ease consumers' fears. After the dram's drop, prices increased in only four or five out of the 40 food categories, according to Ashot Shahnazarian, the Commission's head. The Commission has no plans as yet to take legal actions against food sellers for speculation, he added.

World Bank Country Office Manager Aristomene Varoudakis emphasized the need for Armenian state agencies to be "vigilant, strong and independent to prevent [a] speculative growth of prices."

The International Monetary Fund's representative in Armenia took a similar approach on speculation. "It is natural that [a] dollar appreciation would make imported goods more expensive. But for goods that were already in the supermarkets, there is no reason for them to become more expensive," said Nienke Oomes in an interview with Shant TV on March 3.

One economist believes, though, that the panic has already passed. With time, importers will gradually move to more reasonable behavior, predicted Ashot Khurshudian, an expert at Yerevan's International Center for Human Development. Khurshudian characterized the Central Bank's 2009 inflation target of 8 to 10 percent as still "quite realistic."

Both the IMF and the World Bank have cheered the Central Bank's decision to stop buttressing the dram. The IMF subsequently agreed to loan Armenia \$540 million to shield its economy from the global financial crisis; \$239 million of the sum could be extended immediately. The funds come on top of a 15-year \$500 million loan from the Russian Federation. [For details, see the Eurasia Insight archive].

Experts had repeatedly urged a return to what is known as a "floating rate policy" to increase the competitiveness of the Armenian economy, which is partly cut off from outside trade thanks to its closed borders with Azerbaijan and Turkey. [For background see the Eurasia Insight archive]. Central Bank Chairman Artur Javadian told reporters that the delay in implementing the floating-rate policy had been intended to keep the banking system stable. The bank has forecast a 24 percent decrease on average in the dram's value "in the nearest future."

Sensing an opportunity to score political points, the Armenian National Congress, a bloc of opposition parties led by ex-President Levon Ter-Petrosian, issued a statement claiming that the delay in restoring the floating rate was designed to help oligarchs who run import monopolies. The bloc claims that the policy cost the Central Bank \$800 million in foreign reserves over the last four to five months. It did not substantiate the claim.

Editor's Note: Haroutiun Khachatrian is a Yerevan-based writer specializing in economic and political affairs.
