
Armenian Dram Retreats

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Following a long period of valuation, the Armenian Dram been devaluating on the Armenian currency market for the past 3 days. And what's more, this tendency became obvious after the stabilization observed around two months ago, when the value of US Dollar fluctuated within the limits of AMD 337-338.

Notwithstanding the above-mentioned, the developments observed on the currency market can hardly be considered serious fluctuations, at least for the time being. The devaluation of Dram occurs more smoothly, at an average rate of 0.5 units.

In the currency exchange units, Dollar is exchanged at the rate of AMD 339-339. There is a certain shift in the exchange rate of other currencies as well. That's to say, Dram is beginning to lose its value, and this is accounted for by the increased demand for US Dollar.

It is worth mentioning that the sale-purchase transactions on the Armenian stock exchange did not undergo serious changes during the past 5 days. There was a bargaining on September 5 and 7, and this resulted in the sale and purchase of USD 3.3 million.

However, unlike the past period, the structure of the market has actually changed. While in the past the Central Bank was proposing a supply for Dollar with the purpose of preventing Dram from devaluating still further, the opposite process is taking place now. The participants of the market are proposing a demand for Dollar, and that has led to the increase of its value. The average price of transactions was AMD 339 as of September 7; this is an increase in the amount of 3 Drams, in comparison with the price that existed 4 days before.

Of course, it is impossible to definitely specify the causes of the current developments on the market. It is not ruled out that they may, some way or another, be conditioned by the current inflation tendencies in Armenia.

Although the prices on certain goods increase both on the domestic and the foreign market, the national statistic service has recorded a decrease of prices during the past 8 months. According to statistic data, the prices have decreased by 1.8 per cent in comparison with December 2006. And what's mostly important, the inflation rate in Armenia has formed 1.6 per cent in comparison with the same period last year. That's to say, more than 3 times less than envisaged. As we know, the 12-months inflation rate envisaged in Armenia for the current year is 4±1.5 per cent.

The low inflation rate existing currently allows for acting more freely. While in the past the Central Bank took measures for restraining the increase of prices, it currently has not problem in that regard. The inflation is even lower than the established minimum rate. Therefore, there seems to be no need for restraining the increase of prices by way of raising the value of Dram, at least at the current stage. Especially considering that certain internal factors will still have an impact on the inflation rate.

As we know, the inflation rates in Armenia are greatly dependant upon agriculture. While there was a moment when the rates appeared in the danger zone, especially due to the low crop yield of apricot, the situation has completely changed for the past 3 months. Moreover, the agricultural production is expected to grow by 7 per cent, and this will naturally have a positive impact on the price level and hence - the inflation rate.

Perhaps, it is mainly due to this factor that Armenia has recently recorded decreased indices of consumer prices. Such tendency will most probably be maintained for some time, and the increased prices on some food products will not pose a hazard to ensuring the envisaged rate of inflation.

Although it should be noted that the increased prices are related to such products that have a high specific weight in the consumer basket. At the beginning of September, Armenia recorded increased prices on grain products, butter, oil etc. On the other hand, however, prices on fuel dropped. Such changes mainly derive from the international economic situation, and their impact on the overall inflation rate in Armenia will be clear at the end of the month.

With regard to the existing currency exchange rate, we can say that the situation on the market is still unbalanced and uncertain. The tendencies of the devaluation of Dram are still preserved.

It is quite possible that the increased demand for dollar is, among other things, conditioned by active import. September and October are, as usual, considered an active period for import. This was supplemented by the increased prices on some food products, which made some entrepreneurs of this particular sphere increase the volumes of purchased products, with the purpose of avoiding new increase of prices.
