
Armenian Government Pledges Efforts to Control Inflation

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No efforts will be spared as the Armenian government seeks to curb inflation, the country's prime minister Tigran Sargsian has assured, as reported by ARKA News. In particular, Sargsian analysed that elasticity of Armenian prices is insufficient, with downward movements taking place too slowly compared with price rises. He concludes that the government needs to intervene and will intensify the efforts of the State Commission for Protection of Economic Competition, while also involving the tax bodies in the task. The premier added that the government will pay special attention to price developments of goods for which international price decreases have not led to comparable easing in domestic prices. Inflation regarding both fully and partially imported goods will be investigated in such cases. The economy and finance ministries, the Central Bank of Armenia (CBA) and the State Commission for Protection of Economic Competition, are to work together in finding the appropriate measures to curb price rises. Armenian consumer price inflation ended 2007 at 6.6%, averaging 4.4% for 2007, while the latest data show that consumer prices in Armenia soared by 10.7% year-on-year (y/y) in April, mainly driven by sharply increasing food prices (see Armenia: 5 May 2008:). The Armenian budget targets 2008 inflation at 4%, with a corridor of 1.5% percentage points on either side.

Significance: After several years of remaining remarkably low in comparison to soaring economic growth, Armenian inflation has recently accelerated sharply, largely because of soaring international food prices. These have a strong bearing on Armenian inflation because food still plays a large role in the typical consumption basket of the households. The CBA has fended off inflation pressures by repeated interest rate hikes, but as the effect of these remains limited in the undeveloped financial environment, its key means for curbing inflation has been letting the dram appreciate considerably in response to strong foreign currency inflows in the form of workers' remittances and FDI. In addition to inflation being pushed upwards from the cost side due to high prices of food, demand-side price pressures also continually play a role, as the robust GDP growth has proved somewhat more reluctant to cool than Global Insight previously expected, even if the first quarter finally saw some moderation in overall growth. Domestic demand is partly boosted by fiscal spending. Indeed, the International Monetary Fund (IMF) recently cautioned that the Armenian government should tighten its fiscal stance in order to support monetary policy in anchoring inflation expectations (see Armenia: 22 May 2008:).
