
Producer Price Inflation Moderates In Armenia During 2007

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Global Insight - 12/2/2008

Industrial producer prices increase by an average of 0.6% over 2007, according to the Statistical Committee of the Commonwealth of Independent States (CIS). This is a very low rate in peer comparison, and follows average industrial producer price inflation rates of 0.9% and 7.7% seen in 2006 and 2005, respectively.

Significance: The now reported further easing of already moderate producer price inflation in 2007 was combined with accelerating consumer price inflation. Indeed, consumer prices increased by 6.6% year-on-year (y/y) in December 2007, while the average inflation rate accelerated from 2.9% in 2006 to 4.4% last year (see Armenia: 2 January 2008:). The persistently very strong domestic demand pushed up consumer prices, necessitating the Central Bank of Armenia (CBA) to allow the dram exchange rate to appreciate strongly over the year, as it had little other means to sterilise the effect of strong foreign currency inflows in the form of workers' remittances and FDI.

Indeed, the dram/US\$ rate ended 2007 at 304.22, having strengthened by some 17% over the year. This, further, acted to moderate producer price pressure, as the strength of the dram counteracted the high price of energy imports, moderating the upward impact of commodity prices on domestic producer price inflation. As domestic demand is finally expected to cool somewhat, at the same time as international energy prices remain at high levels, demand pressure on consumer price inflation should somewhat ease, leading further to weaker upward pressure on the dram. Thus, producer price inflation is likely to somewhat pick up this year.
