
Manufacturers Downplay Benefits of Weaker Dram

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Armenian manufacturers on Friday welcomed the dram's devaluation but cautioned that its positive impact on the struggling domestic industry will be limited by other factors.

The Armenian government has presented the 20 percent drop in the dram's value as an opportunity for the manufacturing sector to not only reduce the effects of the global economic crisis but also improve their position in the local market. Government officials say it will help to reduce the country's massive trade deficit that reached a new high last year.

The industry has been one of the most sluggish sectors of the Armenian economy in recent years. Economists believe that its growth has been stymied by the dram's dramatic appreciation against the U.S. dollar and other foreign currencies, which preceded its sharp fall.

Vazgen Safarian, chairman of the Union of Domestic Manufacturers, gave a cautious welcome to the dram devaluation, saying that the Armenian authorities' economic policies have until now favored a small number of companies involved in large-scale imports of goods and commodities. But he said the measure will significantly benefit only those manufacturing firms that operate with domestic raw materials. Those include large export-oriented mining companies that have been hit hard by the slump in international prices of non-ferrous metals.

Safarian argued that the benefits of the weaker dram will also be offset by increased interest rates and broader tightening of Armenian banks' lending terms observed in recent months. 'You can't boost manufacturing with short term and high-interest loans,' he said.

'This is a necessary but not sufficient measure,' agreed Armen Gevorgian, financial director of Ashtarak-Kat, Armenia's largest dairy firm. 'Our products were not competitive in foreign markets. The change in the exchange rate will make them more competitive and imports will decrease.'

Still, Gevorgian cautioned that 30 percent of supplies to Ashtarak-Kat, including butter and packaging materials, come from abroad and the company will now have to pay more for them. 'We hope that our sales will grow because of decreased imports, rather than increased domestic consumption,' he told RFE/RL.

Armenian meat-processing firms are even more dependent on imports of raw materials. 'Accordingly, production costs are going up and we have to raise our prices by 7-10 percent,' said a top executive of one such company, A. Bilian.
