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## **Fitch : Proposed IMF Program Would Support Armenia's Ratings**

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Fitch Ratings says today that a proposed IMF loan facility for USD 540 million would support the adjustment of Armenia's economy in the face of a global and regional economic shock, and support the outlook for its sovereign ratings.

Armenia's foreign and local currency Issuer Default Ratings (IDRs) are 'BB' with Stable Outlooks. The Country Ceiling is 'BB+' and the country's Short-term rating is 'B'.

"Armenia's decision to seek a precautionary IMF program and allow a freer float for the currency is a welcome signal of the authorities' cautious approach to managing current difficulties," says Andrew Colquhoun, Director in Fitch's Sovereigns Group. "However, the reserves loss to end-January indicates the scale of the shock, and suggests there is little room for policy missteps which could undermine macroeconomic stability and increase downwards pressure on the ratings."

IMF Managing Director Dominique Strauss-Kahn has requested that the IMF's Board approve a USD 540 million, 28-month Stand-By arrangement for Armenia, at a planned 6 March meeting. A program approval would follow a 24% fall in official reserves to USD1.26bn by end-January 2009, from USD1.66bn at end-2007. The central bank (CBA) has said it spent USD360 million supporting the Armenian dram (AMD) at around 305 to 1 USD during 2008, to support confidence in the partly-dollarised financial system amid global financial turmoil and political tensions. The CBA says it will now permit greater exchange-rate flexibility, and expects the AMD to settle around 370 to the USD. However, the CBA has held back from formally committing to an AMD target or band. The IMF program will include support to Armenia's banks, enabling them to absorb the consequences of AMD depreciation for the 38% of loans in the system denominated in foreign currency. With bank credit to the private sector of only 17% of GDP at end-2008, any potential problems in the still relatively well-capitalized banking sector should be more manageable than for most of Armenia's regional peers. Armenia's GDP growth slowed to 6.8% in 2008, from 13.8% in 2007. The economy contracted by 0.2% in Q408, hit by an 11% fall in construction. The sharp downturn in the Russian economy in Q408 is likely to have affected remittance receipts, an important source of foreign exchange and demand. The IMF projects that Armenia's economy could shrink 1.5% in 2009, although the authorities expect growth of around 2% driven mainly by fiscal stimulus, partly funded from official sources. In addition to the likely IMF program, Armenia is expected to receive a USD500 million credit from Russia, and up to USD525 million from the World Bank for SME financing over four years. Securing and successfully implementing the IMF program and sustained domestic policy discipline would support the ratings. Geopolitical risk remains a background feature in a volatile region, although there have been signs of progress towards a resolution of Armenia's frozen conflict with neighboring Azerbaijan. Domestic political risk appears to have eased after the election-related violence of March 2008, although a downturn in the economy could spark further unrest. The public finances remain a rating strength, with government debt projected by Fitch at around only 14% of GDP by end-2008.

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