
Instruments Used By CBA to Combat Inflation Pressures Will Not Change, CBA Deputy Chairman Says

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YEREVAN, MARCH 5, NOYAN TAPAN. The forecast of 8% inflation in Armenia under conditions of a floating exchange rate includes the rise of the dollar's exchange rate from 305 to 360-380 drams, as well as the rise in prices of power-bearing substances from April 1 and the continuing deflationary effects of global economy. "We will combat inflation pressures consistently, by using our usual monetary and credit instruments, including interest rates and regulation of the amount of money," the deputy chairman of the Central Bank of Armenia (CBA) Vache Gabrielian stated at the March 4 press conference.

According to him, a growth of interest rates of deposits and credits is also expected because "the inflationary environment will result in a general growth of interest rates". To recap, on March 3 the CBA raised the refinancing rate by 1%, fixing it at 7.75%, whereas in recent period it was changed by a 0.25% "step".

As regards the question of why the CBA did not shift to a floating exchange rate policy earlier and in a smooth way, V. Gabrielian said that the shift is temporary and it was made when some problems related to financial stability arose. He added that in the countries which made a gradual shift, it was a costly and less efficient process. It was mentioned that "the policy of gradual reduction of the exchange rate is conducted in Russia, and one of its major shortcomings is that although considerable resources are spent, which Russia as a rich country with large external reserves can afford, a change of inflationary and exchange rate depreciation expectations is not made there". The same is true for Kazakhstan, Belarus, Azerbaijan and Uzbekistan. In those countries where the policy of shifting to a floating exchange rate is conducted more or less sharply, "the exchange rate depreciation expectations disappear quickly".

V. Gabrielian said the pressures on the exchange rate began in Armenia in the autumn of 2008. In September, following the Georgian-Russian "August war", no goods entered Armenia (70% of imported goods enter Armenia through Georgia). The deputy chairman of the CBA underlined that after that period, not controlling the depreciation of the exchange rate in Armenia might result in serious problems related to financial stability. He added that the monitoring of the developments in the Armenian banking system in February 2009 showed that the financial system of the country is stable, while the potential of the possible impact of the majority of existing fluctuations on the financial system has declined.

In his opinion, under the new conditions the risks of the banking system become apparent in the fact that "in conditions of changes in the banks' liabilities (if liabilities are more expressed in foreign currency), the assets do not change at the same speed and the banks are suffering and will continue to suffer losses related to the change of the exchange rate".

However, the CBA's calculations show that "the financial system is not under threat, and no bank will have any problems with insolvency, lack of resources or considerable waste of capital".

V. Gabrielian expressed an opinion that the expectations of further depreciation of the dram have considerably declined, and the results of bargaining on NASDAQ OMEMEX ARMENIA stock exchange also show it: sales-purchases of 7 million 390 thousand dollars were made there on March 4 at

the weighted average exchange rate of 372.98 drams a dollar. The closing price made 372 drams. On March 3 sales-purchases of 3 million 420 thousand dollars were made at the weighted average exchange rate of 372.11 drams a dollar. The closing price made 372.49 drams. At the same time, in the words of V. Gabrielian, "the population's tendency to exchange drams for foreign currency has declined. Our view is because the exchange rate adjustment was quite considerable, these tendencies will probably stop soon". He also expressed a hope that a new equilibrium level will soon form in the foreign currency market (without interventions of the CBA), which will eliminate the uncertainty that economic entities have regarding the exchange rate, and the situation in the commodity markets and the trade sector will improve.

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