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# World Bank Unveils New Loan Package For Armenia

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The World Bank will more than double lending to Armenia in the next four years to help it cope with the growing fallout from the global financial crisis, senior bank officials said at the end of a two-day visit to Yerevan on Tuesday.

Shigeo Katsu, the World Bank vice-president for Europe and Central Asia, said the country is on track to receive at least \$525 million in fresh low-interest loans from 2009 through 2012. On top of that, he said, it will get separate assistance from the bank's commercial arms, the International Finance Corporation and the Multilateral Investment Guarantee Agency, that could raise the total to \$800 million.

The figures represent a sharp increase from \$220 million which the Armenian government has borrowed from the Washington-based institution in the last four years.

'This obviously reflects the good reform performance of Armenia and is also a recognition of the global crisis as it starts to affect Armenia,' Katsu told a news conference after talks with President Serzh Sarkisian and Prime Minister Tigran Sarkisian.

According to official sources, the talks focused on the Armenian government's efforts to mitigate the crisis's effects on the domestic economy. The government hopes to do that by boosting spending on infrastructure projects and giving local businesses better access to cheap credit. Large-scale external assistance is vital for the success of its anti-crisis plan.

According to Katsu and other World Bank officials accompanying him, three of the promised loans will be disbursed as early as next month. The biggest of them, worth \$50 million, is to be channeled into small and medium-sized enterprises (SMEs) through Armenian commercial banks.

The Armenian government hopes to attract a total of \$250 million in donor funding for that purpose. Donna Dowsett-Coirolo, the World Bank's outgoing director for the South Caucasus, made clear that the bank will not allocate the entire sum and that the government has also turned to other donors for support.

Prime Minister Sarkisian, according to his press office, told the visiting World Bank officials that Yerevan is holding 'successful negotiations' on the SME loan scheme with the European Bank for Reconstruction and Development and the Asian Development Bank. No further details were reported.

Another loan, worth \$25 million, will be used for building country roads and financing other rural infrastructure projects. The construction work, which is due to start this spring, will create new jobs in economically depressed areas heavily reliant on seasonal labor migration.

The large number of Armenians traveling to Russia for work may well decrease this spring as the Russian economy increasingly feels the effects of the recent sharp fall in international prices of oil and other commodities. Accordingly, analysts expect a drop in large-scale remittances from Armenian migrant workers that support a considerable part of the

country's population. The remittances appear to have already shrunk in the fourth quarter of 2008.

The falling cash inflows, coupled with the worsened global economic outlook, have clearly put pressure on Armenia's national currency, the dram, that has appreciated dramatically against the U.S. dollar and other major currencies since 2003. Nonetheless, the dram's exchange has remained virtually unchanged since early October, prompting speculation that the authorities are artificially maintaining its value.

The government and the Central Bank of Armenia deny injecting large amounts of dollars in the local currency market in recent months. They insist that the dram's exchange remains market-based.

However, Katsu appeared to claim the opposite. 'The authorities have repeated their commitment to a floating and flexible exchange rate regime in the medium term,' he said. 'I have no doubt that we will get there. But obviously the question is how do we get from here to there?'

The World Bank vice-president reserved judgment on the wisdom of this exchange rate policy, saying that the issue is 'very complex' and sensitive.

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