
Where Are The Currency Assets Of The Central Bank Allocated?

By Lilit Poghosyan
Hayots Ashkhar Daily - 24/10/2008

And how does the CB control its resources?

At yesterday's Q&A session between the Government and the National Assembly, RPA member A. Davtyan addressed the following questions to the Prime Minister: in what way and to what extent has the global economic crisis impacted the economy of Armenia? Has the Government assessed the possible risks and what measures does it take to reduce the negative impacts of the global crisis to a minimum?

The answer of Prime Minister T. Sargsyan did not sound convincing to the author of the question; moreover, the MP was surprised. Below we present Artak Davtyan's considerations regarding the subject matter of the issue.

"The NA Regulations-Law does not envisage any possibility for turning the NA-Government question and answer session into a debate. And naturally, it cannot contradict the clarifications of the Prime Minister and discuss to what extent the arguments of the Government are right or wrong, admissible or inadmissible. But I cannot help saying that I am not, mildly speaking, satisfied with the answers of the Prime Minister.

Especially considering his categorical accentuations and instructive tone by which Head of the Government introduced the 4 clauses of the "recommendations" of the World Bank and the International Currency Fund.

According to the Prime Minister, the first recommendation or "proposal" of the specialists is the following: to avoid, to the greatest possible extent, speaking about the impending crisis or disaster so as not to arouse negative expectations and anxiety among the private entrepreneurs and citizens and hence, not to increase the possible risks and negative consequences.

In my opinion, this approach is not absolutely acceptable. If the World Bank and the International Currency Fund were convinced that the best way out of the existing situation was not to see those risks and avoid speaking about them, they would first of all give recommendations to the countries that gave birth to such crises. First of all, I mean the United States where all the media unanimously speak about the global crisis and the ways towards overcoming its impacts.

I don't know what goals the Prime Minister pursues by insisting that everything in our reality is all right, and there are no threats to our economy and financial system. He doesn't even say to what extent those recommendations will help overcome the possible negative consequences.

Personally I am not optimistic in that respect. After all, if there is a problem, it is necessary to raise it, understand the causes and then find solutions, instead of concealing everything and pretending that nothing has happened.

Especially considering that we have had that experience. Just a few months ago when the Georgian-Ossetian war had just begun, the possibility of the so-called "global crisis" was not even sketched. The general opinion at that time was that the Georgian crisis would not produce any impact upon the economy of our country. And that happened in a situation when it was obvious

that the problem did really exist, and it was necessary to undertake certain steps for mitigating the negative impacts of the Russian-Georgian conflict.

Today, everybody already admits and the Government confesses that we have really suffered serious losses. The events in Georgia have caused a damage of 670 million dollars to our country. Had that reality been presented to the international community in time, the millions of dollars allocated to Georgia might have been partially allocated to Armenia as well.

Therefore, regardless the clarifications of the Prime Minister, I stick to the viewpoint that silence is not the best way for overcoming the situation with minimum losses."

"While making remarks, you considered the approach adopted by the World Bank vulnerable. According to that approach, it is senseless to exchange some part of the CB reserves for gold because that is not only unjustified but also harmful. Do you again consider the clarifications of the Prime Minister unconvincing?"

"In my question, I did really mention that in the opinion of some analysts, there were some discrepancies between the real and legal status of gold, and those discrepancies did not absolutely contribute to the viability of the financial system. It is also in consideration of this factor that many countries keep some of their reserves in the form of gold as a permanent value. Unfortunately, the humanity has not invented a more reliable and permanent value yet.

And the problem here does not absolutely consist in whether or not the Central Bank has sold its reserves of gold or whether it acted the right way by getting rid of them or whether the country has lost or gained anything as a result, considering the sharp devaluation of the dollar over the recent years."

My question was the following: whether it isn't time for us to keep some part of our currency reserves in the form of gold. In contrast to that, the Prime Minister referred to some simple copybook truths and explained that the gold in the reserves of the Central Bank does not simply fulfill the function of accumulating wealth. Secondly, he pointed out the issue of profitability and realization.

I believe we really have a problem in this regard. In the 2007 report of the Central Bank, "Assets in Currencies" are defined as follows: "Financial tools measured by their real value; the gains and losses obtained as a result of their repeated measurement are determined by the report on the financial results." According to that article, we had similar assets in the amount of 79 billion 440 million drams at the end of 2006 and 318 billion 671 million drams or more than 1 billion dollars at the end of 2007. In such conditions, a question arises as to where those assets were allocated.

Our currency reserves have been increasing since 2003, when the valuation of the Armenian dram began. After such increase, relevant sums are added in the sections concerning the expenses and losses as a result of the re-evaluation. Is that clear? But if it is said that keeping the reserves in the form of gold is not profitable, there arises another question: what profitability is meant if the losses of the Central Bank made up 28 billion 970 million drams in 2006, and 43 billion and 794 million drams in 2007? As regards the valuation of the dram, the picture here is more awful. Those losses made up 37 billion 927 million drams in 2006 and 52 billion 984 million drams in 2007.

So the issue is how does the Central bank maintains, controls and uses its currency assets? If everything in our reality is perfect, then you are welcome to open the brackets and prove that it is true.
