
Armenia Devalues Dram to Clinch \$540 Million IMF Loan

By Helena Bedwell and Emma O'Brien
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March 3 (Bloomberg) -- Armenia devalued its currency by 22 percent against the dollar as part of an agreement with the International Monetary Fund for a \$540 million bailout of the former Soviet republic.

The IMF expects the dram to weaken as much as 30 percent as the country moves back toward a free-floating exchange rate, the central bank said in a statement today, citing the IMF's permanent representative to Armenia, Nienke Oomes. Central bank chief Artur Javadyan said he expects the dram to remain nearer today's level, ranging between 360 to 380 drams per dollar this year. The currency was last at 372.4150.

There were some "signs of panic" after the decision, presidential spokesman Samvel Farmanyan said in an interview, following media reports of soaring prices and the closure of some stores. "There is no reason to worry."

Armenia is the fourth former Soviet republic after Ukraine, Belarus and Latvia to request aid from the IMF as investors withdraw capital from emerging markets and banks lose access to financing because of the credit squeeze. The IMF has already allocated more than \$35 billion to stave off defaults and prop up ailing banks in eastern Europe, including Serbia and Hungary.

Resisting Devaluation

The landlocked country between the Black and Caspian seas is home to about 3 million people and borders Turkey, Iran, Azerbaijan and Georgia, the nation that went to war with Russia in August last year. The economy grew 6.8 percent last year and is dependent on diamond-processing and the manufacture of machinery, clothing and some foodstuffs, according to Bloomberg and U.S. government data.

Armenia resisted weakening its currency last year as Russia's ruble slumped 16 percent against the dollar and Ukraine's hryvnia dropped 37 percent. Kazakhstan devalued the tenge by 21 percent on Feb. 4, and Belarus' ruble was allowed to fall 21 percent in January. Armenia's dram fell just 0.9 percent to the U.S. currency last year.

The decision to devalue was based on the experiences of central banks in other countries and is aimed at helping the "struggling" economy, Javadyan said in the statement.

"It's a positive strategy to free float because it gives them the flexibility to adjust to new economic scenarios," said Michael Ganske, head of emerging-markets research in London at Commerzbank AG. "In the current global economic environment it's very, very hard to maintain an overvalued currency."

'Best Option'

IMF Managing Director Dominique Strauss-Kahn recommended that the fund's executive board approve the \$540 million loan when it meets later this week, he said in an e-mailed statement today. A 28-month stand-by agreement will help "address the deterioration in Armenia's external outlook, restore confidence in the currency and financial system, and protect the poor."

The artificially strong dram was affecting economic growth and boosting unemployment, the IMF's Oomes said, according to the central bank statement. "The best option is for the currency to float freely and for the market to determine the rate itself."

The central bank had been managing the currency for the past "few months" to ensure financial stability and limit the impact of a depreciation on local companies and exporters, the central bank statement said. Armenia sold about \$360 million to manage the dram in 2008, according to the statement. The country's reserves dropped \$300 million last year to \$1.3 billion, as of Jan. 31, according to Bloomberg data.

While Armenia said it's returning to a "free float," the central bank may still intervene to avoid "sharp currency fluctuations," Javadyan of the central bank said. Policy makers also raised the refinancing rate today by 1 percentage point to 7.75 percent in a bid to prevent inflation from exceeding the central bank's target, he said. Armenia's inflation was 4 percent in January.

-- With reporting by Paul Abelsky in Moscow. Editor: Gavin Serkin, Stephen Kirkland.
