

Bank Investment Is Booming In Armenia

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Fueled by high economic growth rates, the banking sector in Armenia is rapidly expanding, with several new, large-scale multi-million dollar foreign investments expected in the coming months. Yerevan's Garegin Nzhdeh Square in Armenia illustrates the transition involved. The square's sidewalks are packed with street traders, one of the clearest signs that Armenia's "shadow economy" lingers. The lines of people at three nearby automatic bank tellers waiting to pay utility bills or get cash, however, suggests a parallel trend: the old Soviet image of banks as just a place where extra money could be stored is beginning to fade.

Armenia's ongoing high rate of economic growth (12.1 percent for the first six months of 2007, according to official statistics) largely explains the trend. In 2000, average monthly salaries stood at roughly \$55, while today they average \$205. With incomes rising, residents are turning to bank loans, with interest rates ranging from 15-22 percent, to expand their purchasing power still further.

Since 2004, the banking sector has expanded at a rate of between 10 to 20 percent a year to stand currently at more than \$1.6 billion. In the first six months of 2007, banking assets' value climbed by \$244 million, or about 83 billion dram, according to the Central Bank. Nonetheless, in terms of the ratio of total bank assets to Gross Domestic Product, Armenia ranks as an outsider country. This ratio, commonly used by specialists to evaluate the banking sector, was just over 19 percent by the end of 2006. In most post-Soviet countries, it can stand as high as 50 percent. Central Bank officials put that difference down to relatively strict requirements for issuance of loans and reserve levels, among other indicators, and the Central Bank's weekly verification of commercial banks' balance sheets.

Some experts agree. "Indeed, Armenian banks are probably the best among the CIS countries in terms of the quality of assets," commented Tigran Jrbashian, the Armenian director of the Armenian-European Policy Legal Center, a European Union-funded think tank in Yerevan. With additional investors moving into the field and demand for bank services growing, competition is becoming key. In addition to banks from Russia, the United Kingdom and Iran, new banks have been formed in recent years with capital from the US, Switzerland, Ukraine and Kazakhstan.

The Central Bank announced in July that Russia's Gazprombank, Austria's Raiffeisen Banking Group and the Lebanese Biblos Bank have indicated their intention to invest in the Armenian banking sector, either via takeovers or by creating subsidiaries. In addition, Arminfo has reported that the German-based ProCredit Holding AG, an investment company that is the majority shareholder in a bank group for transition and developing economies, and the Russian investment bank Troyka Dialog are also considering entering Armenia through similar routes.

The British-run HSBC Group Holdings, which has been working in Armenia since 1996, has announced plans to make new investments and open several new branches. Details were not available. The expansion plans of ACBA-Credit Agricole, an Armenian-French joint venture, is being backed by a \$12 million loan from Citigroup and the European Bank of Reconstruction and Development.

The entrance of GazPromBank, in particular, is thought likely to fuel competition with one of the largest foreign bank players in Armenia's market -- Russia's VTB Bank, which took over the Armenian Savings Bank in 2004. In late July, VTB Armenia Chief Executive Officer Valery Ovsianikov told ArmInfo news agency that the bank is looking for capital to see through proposed projects worth \$500 million.

With the expansion, expert Jrbashian hopes that the quality of banking services could improve, too. Already, banks are increasing interest rates for deposits, while some are also venturing into relatively new products for the region -- student loans, low-fee credit cards for account holders

and cumulative interest-rate accounts that vest to accountholders' children upon their reaching adulthood.

But more banking activity could mean higher inflation, a situation often seen in rapidly growing economies which consume large sums of money in a short time. The Central Bank has hoped that a stock market, planned for introduction in the coming year or two, could help keep that risk even lower, but, for now, as bank investment grows, the outcome is far from certain.

Bankers say that inflation could provide a clue. Despite earlier fears that inflation for July 2007 compared with December 2006 might be as high as 4 percent, the increase ranked a mere 0.6 percent. This slight jump, despite above-average growth in the banking sector, has suggested that money supplies have not yet outstripped economic activity. For now, the bets are on that the Armenian economy has room to absorb still more.

Editor's Note: Haroutiun Khachatryan is a Yerevan-based writer specializing in economic and political affairs. - Posted August 27, 2007 © Eurasianet www.eurasianet.org