
Armenian Premier Downplays Impact of National Currency Devaluation

Public TV Armenia - 4/3/2009

The Armenian prime minister has said that making the recent sharp move towards a floating currency exchange rate was more effective than letting the national currency devalue gradually. He also downplayed the impact of the move on society.

In an interview with Armenian Public TV aired on 4 March, Prime Minister Tigran Sargsyan said that the Armenian government had never backed off from the policy of a floating exchange rate but for some period of time it simply preferred financial stability.

As a result of the move, Sargsyan said, Armenian banks have increased their liquid assets and are now able to serve the public and the economy. This decision was made after discussions on the issue with the World Bank (WB) and the International Monetary Fund (IMF), Sargsyan said. "This makes the environment more predictable for commercial banks, as well as the market, exporters and importers," Sargsyan said.

The government has specified its programmes for the coming three or four years, after completing talks with the WB, IMF and "strategic partners", Sargsyan said, adding that this led to the IMF's decision to extend 540m dollars in a loan. The WB announced it would extend 525m dollars in a loan to Armenia to be channelled into various sectors of the economy and the Russian prime minister said their government would allocate 500m dollars in a loan to Armenia, Sargsyan added. Other regional banks will also extend loans to Armenia, he noted. Sargsyan said that thanks to this, the government will prioritize social projects, meaning in particular that there will be no delays in paying pensions or salaries to teachers. This money will also be used to improve the infrastructure and contribute to economic growth by assisting companies that plan to create more jobs, he said. The best way to do this is to help small and medium-sized businesses, Sargsyan added.

Sargsyan predicted that the prices that surged on 3 March would stabilize within a couple of days. "It is understandable that the 20-per-cent devaluation of the national currency makes importers adjust their prices," Sargsyan said. He added that importers, however, operated in a very favourable environment in the past years due to the strong national currency and have accumulated a lot of funds, so they would not have many problems. The situation is under the control of the regulating bodies, he said, and if importers try to raise prices sharply, they will find themselves facing the risk of paying more taxes. So, the wisest policy for them would be to act in a more balanced way. We predict an 8-per-cent inflation rate for this year, which is the same figure as last year, he said.

Sargsyan noted that the increase in the prices for natural gas, electricity and water was not big, and that calculations showed it would deduct some 2,000 drams (about 5.5 dollars) from family budget. But this is offset by the 14-per-cent rise in pensions that we have done for this year, Sargsyan said. In addition, the government will help the most vulnerable groups of society, he added.

Sargsyan said that the devaluation of the dram would help boost domestic production and exports. He said the plan to devalue the national currency was discussed with the captains of the Armenian economy, so it was not news

to them. Also, he said, the government is helping companies that are having temporary problems due to the world financial crisis and those that are planning to create more jobs. "These are successful companies with serious assets, and they will create new jobs and add to our export potential," Sargsyan said.

Sargsyan also said that Armenia has some strong sides in dealing with the second wave of the world economic crisis. These include strong macroeconomic indices, Armenia's small foreign debt and stable bank system, he said. Sargsyan also dismissed rumours that Armenia would enter the rouble zone, calling such a move "illogical."
