
Armenia's Current-Account Deficit Keeps Soaring Over January-September

By Venla Sipila

World Markets Research Markets/Global Insight - 12/1/2009

According to latest balance of payments figures from the Armenian National Statistical Service, the country's current account registered a deficit of some \$932US million for January-September 2008, ARKA News reports. This result marks a dramatic deterioration compared with the shortfall of \$348US million witnessed over the first three quarters of 2007. As expected, the trade deficit remained in key role as driver of the overall external gap. Indeed, the deficit on goods trade in January-September amounted to \$1US.8 billion, up from some \$1US.0 billion a year ago, while also the relatively modest service trade deficit widened in annual comparison. Meanwhile, the balance on the current transfers account registered a surplus of \$777US million, somewhat widening from the same period last year, while also the income trade balance strengthened in annual comparison, reaching \$318US million.

Significance:As a percentage of GDP, the external deficit for the first three quarters of the year came in at 10.9%. While this ratio is lower than the share of 12.6% in the first half, signalling some positive developments in the third quarter, the comparison to a deficit to GDP ratio of 5.7% in the same period last year is particularly discouraging. The deep current-account shortfall and Armenia's dependence on foreign investment and transfer inflows for financing it leave the country very vulnerable to external shocks. Considering the current sharp global economic downturn and the tightness of international liquidity, risks related to investment inflows and thus, to financing the deep current-account gap, have recently increased, and developments in the country's external liquidity gap warrant close monitoring at present. Thus, it remains as crucial as ever to support Armenia's attractiveness for foreign investment by improving the operational environment by further reforms, notably in the fiscal sector. On the other hand, relatively good reform progress so far has secured unproblematic access to concessional loans, and thus, external payments pressures are at present expected to remain manageable.
