

Credit Crunch Threatens Even Isolated Armenia

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Until recently, banking system had managed to survive relatively unscathed, mainly because it is only slightly integrated into world markets.

Armenia's economy appeared to be safe from the world's financial crisis, being small and isolated - though even here the shock of the credit crunch is making itself felt.

Property prices have tumbled, and construction projects have been forced to slow or close altogether, while the supply of remittances from Armenians in Russia also threatens to dry up.

"The first wave of the crisis in the world markets, happily, did not have a major negative effect on Armenia's financial system, but we know well that after a financial crisis, an economic crisis starts and we must be ready," Prime Minister Tigran Sarkisian told parliament, when presenting a plan to support the economy and subsidise companies.

He also proposed establishing a commission to examine ways of creating more jobs, but that may be too late for workers at Armenia's copper smelters.

The three smelters in Kajaran, Kapan and Agarak have all reduced output and laid off workers, which threatens to be a catastrophe for the Syunik region where there are no other jobs. A government delegation has already been forced to go to the region to prevent a strike.

Arpik Simonian is one of those workers struggling to know what to do if he loses his job.

"The worst case scenario is that I remain here. I will survive, as they say. I'll have to borrow money. But I have no idea how I would pay it back," he said.

He would, he says, prefer to go and get work in Russia but that may not be possible, in the light of the crisis there.

"If the Russian financial crisis continues to deepen, then the Armenian economy will experience an insufficient supply of direct investment and remittances, which come to the country primarily from Russia," said Andrankik Tevanian, the head of the Politekonomia think tank.

He said 90 per cent of Armenians in Russia are working in the construction sector, which is seriously affected by the crisis. Half of them may fail to find work in Russia next year.

Since Russia is the source of 75 per cent of the remittances coming into the country, experts predict a reduction in the amount of money available to families and a corresponding reduction in citizens' purchasing power, which in turn threatens producers.

However, remittances are currently still increasing, with a record 203 million US dollars coming into the country in September. The central bank does not predict remittances to fall before the end of the year.

These same experts believe the government may struggle to maintain its budget plans for 2009, since they were drafted before the crisis struck. Expert Andranika Tevanian, for example, said the 3.3 billion dollar budget relied on increased tax receipts, which threatens to worsen the tax burden on small and medium businesses.

"In connection with the crisis, all countries in the world are taking steps to ease the tax burden on business. In Armenia, on the other hand, the government is taking steps to worsen business's condition," he said.

The expansive budget may, experts fear, also stoke inflation, which is already running above the government target. The International Monetary Fund predicts full-year inflation of 9.4 per cent, which is significantly higher than the budget target of four per cent.

"I don't even know what to think, everyone's talking only about a crisis. They have promised to increase the pensions, but what's the use if the prices go up as well," Lyudmila Nikolayevna, a pensioner, said.

The banking system has managed to survive relatively unscathed so far, mainly because it is only slightly integrated into world markets. But all the same commercial banks have drastically reduced lending, and now charge a higher interest rate on loans that they do give out.

Just a few months ago, a bank would agree to a mortgage of 15 or 20 years, but now a ten-year loan is more likely. This has had a knock-on effect on the housing market, and caused prices to fall.

According to David Sukiasian, executive director of Armeconombank, foreign banks are charging Armenian customers a rate three full percentage points higher than they were, forcing his bank to raise its own rates. Deposit rates have in turn increased from nine to 11 per cent, as banks seek to attract money.

Bankers expect credit rates to rise by one or two percentage points over the next six months, which means credit will undoubtedly be harder to come by and the economy will suffer.

"We currently are not seeing serious consequences of the global crisis in Armenia. The main reason for this is that in Armenia the financial system is still not very big. On the one hand, this is not very good for the growth of the economy. But on the other, it is even an advantage, because Armenia is out of the path of possible shocks," said Ninke Omes, the permanent representative of the IMF in Yerevan.

However, the crisis has already impacted on the building sector in the capital, where property prices have fallen by 15 to 20 per cent, and some construction projects have been frozen for lack of funds

"The crisis situation on the international markets requires investors and agents, who regard the property market as profitable and secure, to be careful. This is the main reason for the reduction in the number of deals on the local property market recently," said Artur Javadian, head of the central bank.

Experts currently predict the falls in the property market to continue until at least the middle of next year, which will have a bad effect on the economy as a whole, since construction and services together make up 61.9 per cent of Gross Domestic Product.

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