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# European Bank Warns Of Armenian Growth Pitfalls

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The ongoing appreciation of the dram will endanger continued economic growth in Armenia unless local companies increase their productivity, according to the European Bank for Reconstruction and Development (EBRD).

"Without faster productivity gains, a further appreciation of the Armenian currency would threaten the country's competitiveness," the EBRD warned in an explanatory appendix to an economic report that will be debated the Council of Europe's Parliamentary Assembly next week.

The Armenian dram has gained more than 50 percent in nominal value against the U.S. dollar since the start of its dramatic rise in late 2003. The process slowed down in the first quarter of this year only to gain new momentum last month. Local manufacturing firms claim to have been hit hard by the dram's appreciation, criticizing the Armenian authorities for their refusal to intervene in the foreign-exchange market.

The authorities and the Central Bank in particular have dismissed the criticism, arguing that the much stronger dram is the inevitable result of recent years' surge in hard currency remittances sent home by hundreds of thousands of Armenians living and working abroad. They say the manufacturing sector can successfully adapt to the new reality with productivity gains.

Central Bank officials say the exchange rate fluctuation has also suppressed inflation which has remained in single digits despite the country's robust economic growth. The World Bank and the International Monetary Fund take a similar view, having repeatedly endorsed monetary policies pursued by the Armenian authorities. A senior IMF economist went farther late last month, saying that the dram's strengthening has actually spurred economic growth.

The EBRD, by contrast, seems more worried about the trend. In an annual report issued last month, the London-based lending institution, which is tasked with facilitating former Communist countries' transition to market-based economics, listed continued currency appreciation among factors which it believes pose "significant risks for the [Armenian] economy in the medium term."

The other factors included Armenia's "vulnerability to commodity prices," dependence on low-interest loans and grants from Western donors, and skyrocketing real estate prices.

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