
Switch in Armenia's Currency Policy Necessary

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YEREVAN, March 4. /ARKA/. A sharp return to the floating rate in Armenia was necessary for preventing any expectation of the devaluation of the Armenian national currency, stated Vice-Chairman of the Central Bank of Armenia (CBA) Vache Gabrielyan.

Yesterday morning the CBA Board took into account the gradually worsening trade conditions amid the present global economic and financial crisis, as well as lower capital flow rates, and decided to restrict its interventions in the currency market thereby reverting to its floating exchange rate policy. CBA experts believe that the USD average exchange rate will be 360-380 AMD/\$1 this year.

"A smoother process would not be effective, but much more expensive," Gabrielyan told reporters at the Novosti press center.

From the macroeconomic point of view, neither the RA Government nor the CBA have ever announced a transition to a fixed rate.

"However, we stated that the exchange rate was temporarily fixed because of financial stability problems," Gabrielyan said.

He also stated that the policy of gradual changes, specifically, a gradual return to a floating rate, being implemented in Russia has a number of shortcomings. The most serious of them is that huge expenses do not bring about any changes in inflationary expectations.

"The experience of the countries practicing smoother transitions, particularly Georgia, Kazakhstan, Russia, Belarus, Azerbaijan and Uzbekistan, proves that deflationary and inflationary expectations fail to be dispelled. On the other hand, the countries that resort to relatively sharper returns, these expectations are promptly dispelled," Gabrielyan said.

He reported that it was last autumn that essential pressure on the exchange rates was first felt in Armenia. One of the causes was the military operations in Georgia, which prevented the supply of sufficient quantity of goods to Armenia.

"If we had got sharp exchange fluctuations after that, we would have serious problems with financial stability," he said.

Gabrielyan also said that, considering the results of the February monitoring, the CBA is sure of the sufficient stability and liquidity of the banking system, and nothing threatens it.

"It is the reason why the return to the floating rate is possible at the moment," Gabrielyan said.
