



The influence of financial and economic crisis on Armenian economy

Anti crisis measures of Armenian authorities

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Why did we avoid the financial phase of the global crisis

- Nascent capital market – market capitalization for 2007 was only 1% of GDP, for 2008 – 1.5% of GDP, with essentially no trading in shares
- Almost no investments in foreign securities, including structured instruments
- Very low dependence on external commercial financing of both banking sector and corporations, banks' external liabilities are long term (85%), mostly from the IFIs and mother companies
- Sound and liquid banking system (CAR is about 27%)
- Strict lending requirements, tough supervision



The impact of global economic crisis on the real sector of the economy

- Decline in limited export industries
 - Decline in metal prices, decreased external demand for metals
- Decline in investments
 - Negative expectations
- Decline in demand
 - Decline in remittances
 - Significant decline in demand for real estate, which was mainly financed from abroad



How did it work out

Slowing and eventually reversal of economic growth starting from the IV quarter of 2008

- Slowdown of capital inflows
- Deepening of external imbalances, with FX rate depreciation expectations
- Expectations-driven dollarization (share of AMD deposit in total deposits shrank from 60% to 30% during the last quarter of 2008 and first quarter of 2009)
- Increased risk expectations, bank lending slows down
- Depreciation of national currency for 21%, March 2009
- GDP contraction for 18.4% during first 10 months of 2009 (mainly due to construction sector)



Monetary policy directed at financial stability

- Combining financial stability with price stability, often price stability taking the backseat
 - For a couple of months maintaining inflexible FX rate to allow the banking sector to restructure in line with rapidly changing liabilities
 - With FX adjustment in place, increase in the volume of Central bank open market operations, while decreasing the Central bank repo rate
 - Providing of long-term – up to 3 month repos
 - Gradual decrease of CBA repo rate - starting from fourth quarter of 2008 till third quarter of 2009 in total repo rate decreased by 275 bp to 5%



Financial stability and crisis management measures at CBA

- Creation of Financial stability committee, daily meetings
- More frequent meetings with financial institutions top management and shareholders, for CBA policy better coordination
- Daily monitoring of the banking system
- Design of contingency plans for different scenarios on bank by bank basis
- Design of new and combined stress tests for evaluation of financial stability and resilience of financial institutions (running of stress tests almost on daily basis)
- Facilitating credit flow – in June 2009 CBA founded National Mortgage Refinancing Company



CBA coordination with Government Anti crisis program

- Receiving of stabilization credits form IMF, Russian Federation and World Bank
- Provision of long-term funding by the government to financial institutions to boost SME, business and mortgage lending in economy (about \$160 mln with post financing scheme)
- CBA enlarged its treasury bills portfolio, to facilitate government new issues



Thank you for your attention.

