



Effects of the global financial crisis on Armenia

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How does the global financial crisis affect Armenia?

- Four main channels:
 1. Banking sector
 2. Commodity prices
 3. Remittances
 4. FDI
- Overall impact
 - No crisis, but a major slowdown

Channel 1: The banking sector: still liquid and well capitalized

Table 1. Armenia: Financial Soundness Indicators for the Banking Sector, 2008-Q3

	2007				2008		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Liquidity							
Liquid assets to total assets	41.0	36.7	34.7	33.7	30.5	27.1	25.5
Liquid assets to total short-term liabilities	109.9	98.6	93.7	98.2	101.0	95.6	92.4
Customer deposits to total (non-interbank) loans	119.3	118.3	105.9	106.2	96.4	91.4	87.5
Capital adequacy							
Total regulatory capital to risk-weighted assets	35.3	32.7	31.4	30.1	27.0	26.0	27.2

Source: Central Bank of Armenia.

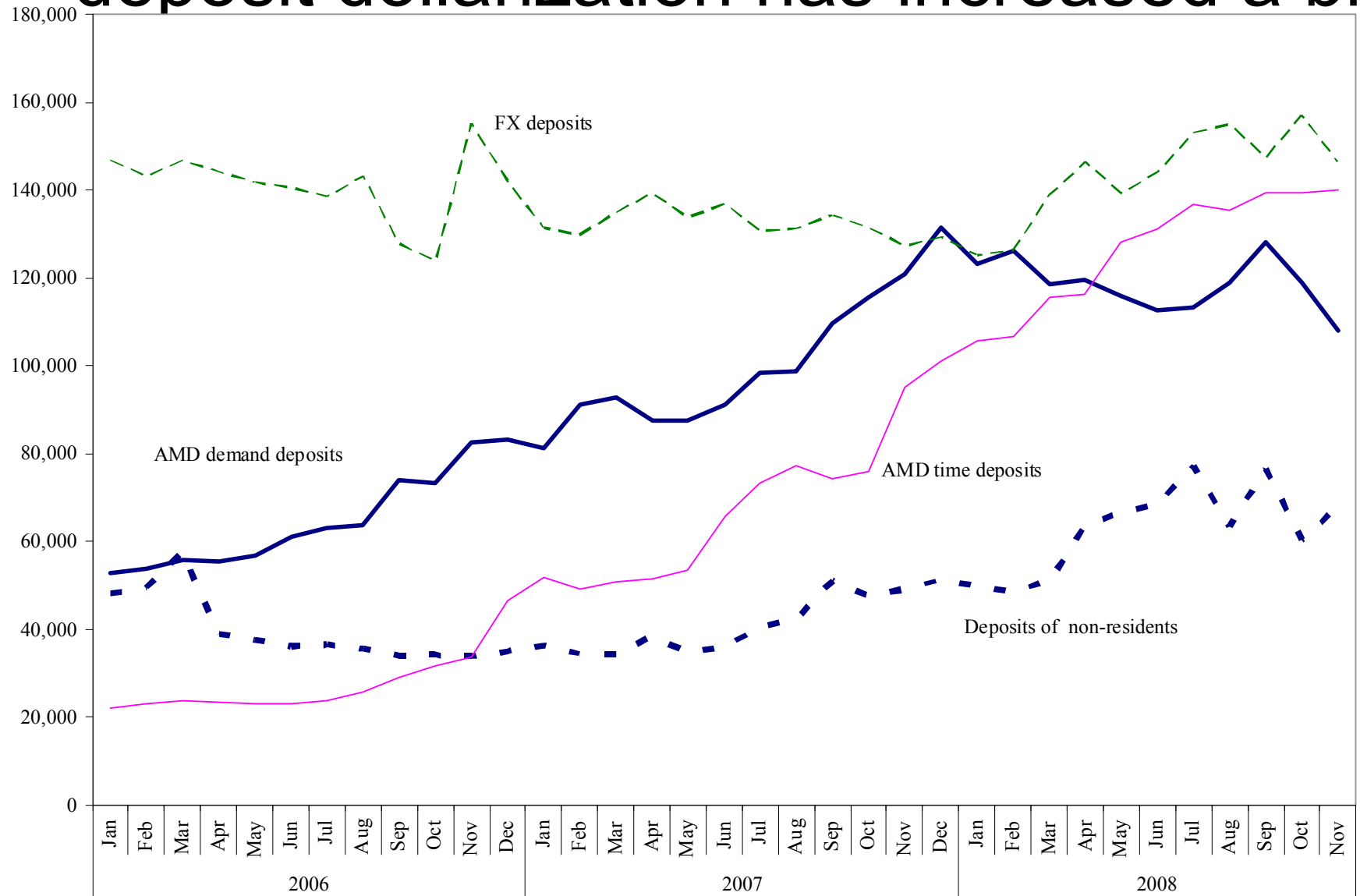
Non-performing loans are below 4 percent of total loans

Table 2. Armenia: Financial Soundness Indicators for the Banking Sector, 2008-Q3

	2007			2008			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Asset quality							
Nonperforming loans (billions of drams)	7.3	8.6	10.6	10.3	18.7	19.2	23.3
Watch (up to 90 days past due)	5.4	5.5	7.0	5.8	13.3	11.9	13.3
Substandard (91-180 days past due)	1.1	2.1	2.2	1.3	2.0	4.8	2.8
Doubtful (181-270 days past due)	0.9	0.9	1.4	3.1	3.3	2.6	7.2
Non-performing loans to gross loans	2.8	2.8	2.9	2.4	4.0	3.6	3.9

Source: Central Bank of Armenia.

So far no significant deposit outflow, but deposit dollarization has increased a bit



However, overall FX exposure of Armenian banks is low

Table 3. Armenia: FX Exposure of Banking Sector, November 2008

	2008										
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
	(In percents)										
Foreign exchange deposits to total deposits	35.4	35.1	37.2	38.3	36.3	37.1	38.0	37.9	35.5	37.8	37.1
Foreign exchange loans to total loans	39.4	39.6	38.8	38.7	38.4	37.0	36.9	37.6	37.9	38.5	38.2
Gross open positions in foreign exchange to capital			6.9			4.8			4.1		

Source: Central Bank of Armenia.



Channel 2: Commodity Prices

- Armenia has suffered from the large drop in copper and molybdenum prices
- Armenia has not benefited much from the drop in oil prices and wheat prices

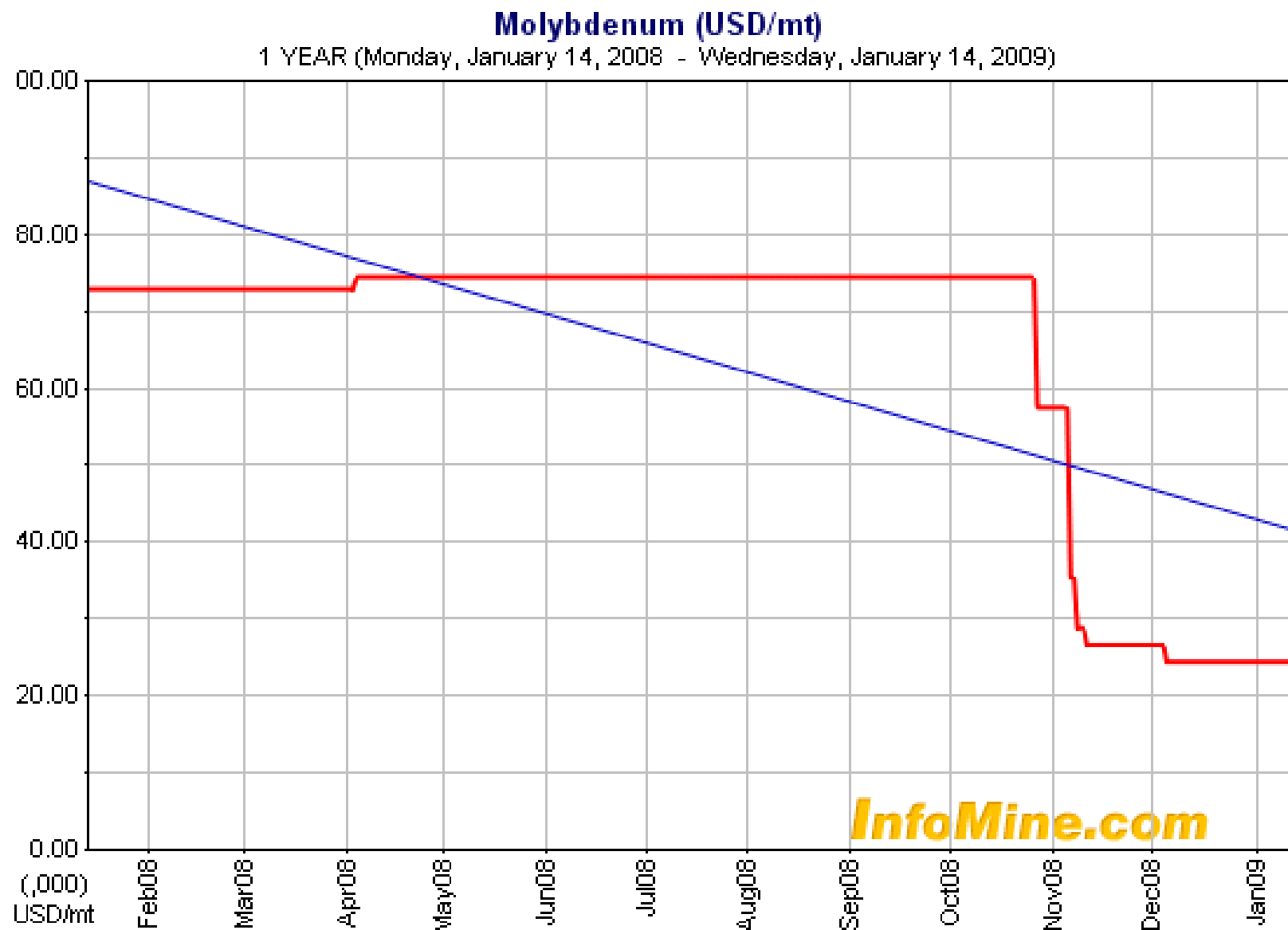
Copper prices lost 2/3 of their value

Copper (USD/mt)

1 YEAR (Monday, January 14, 2008 - Wednesday, January 14, 2009)

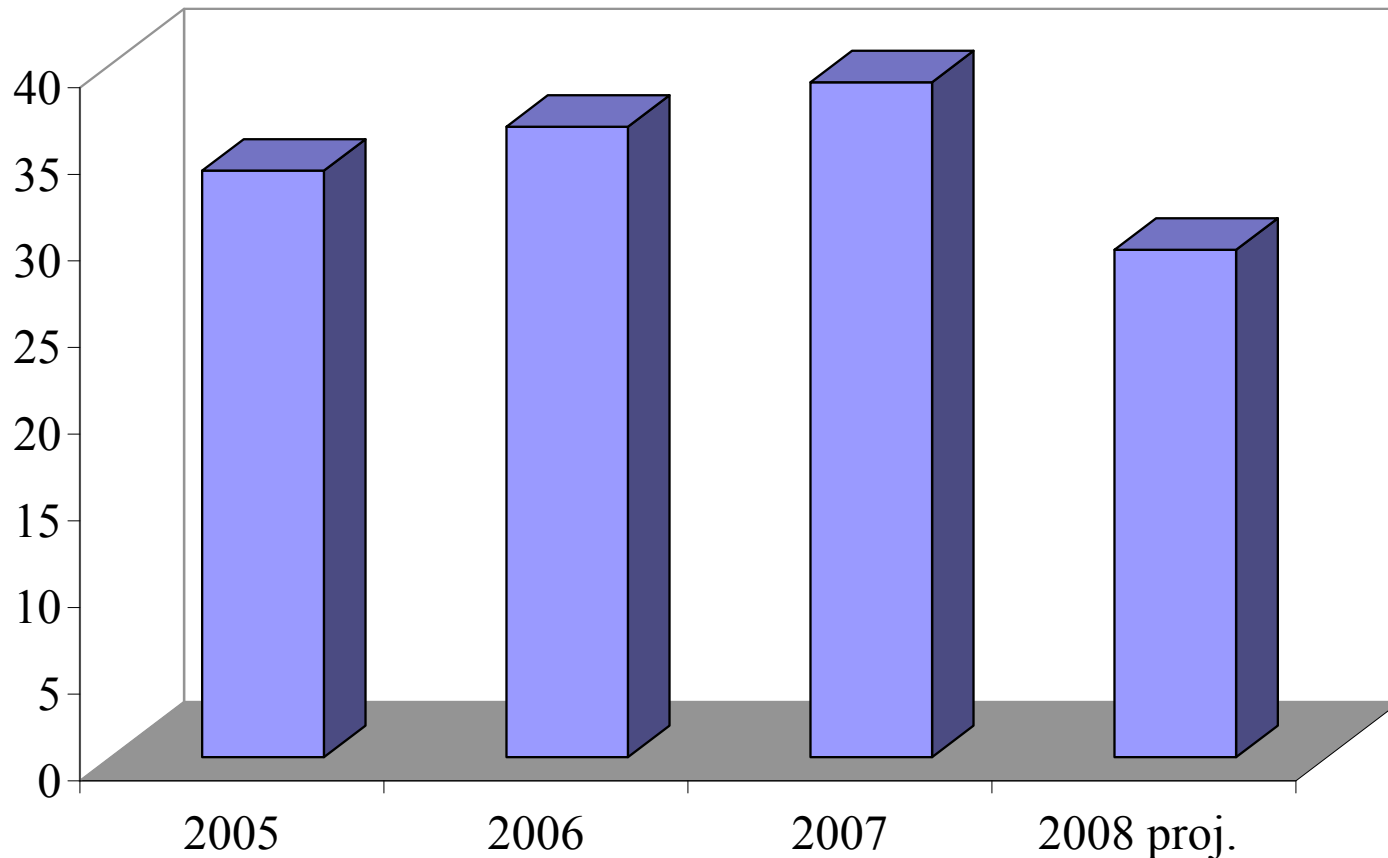


Molybdenum prices lost 2/3 of their value

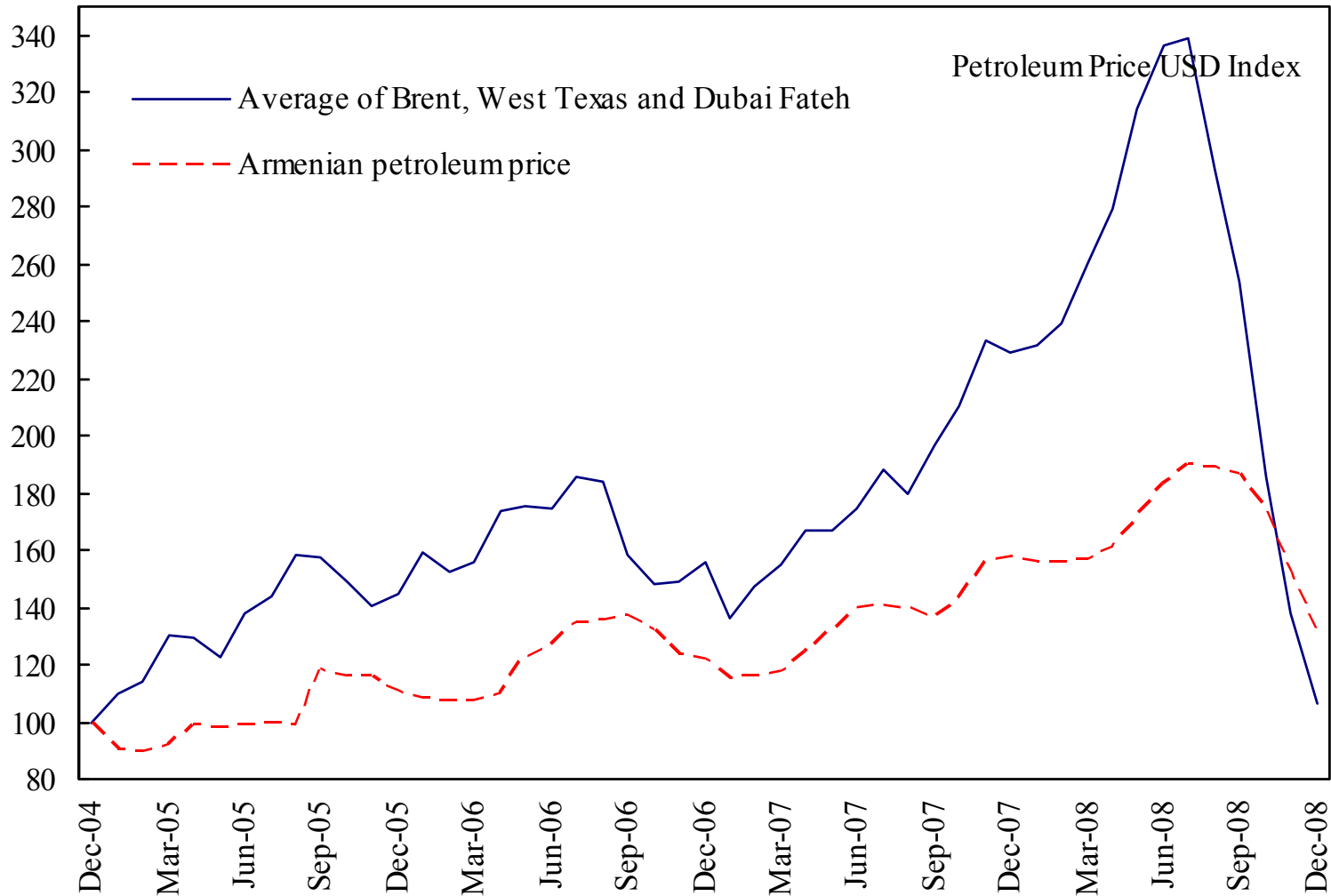


As a result, GDP growth, exports, and tax revenues have fallen

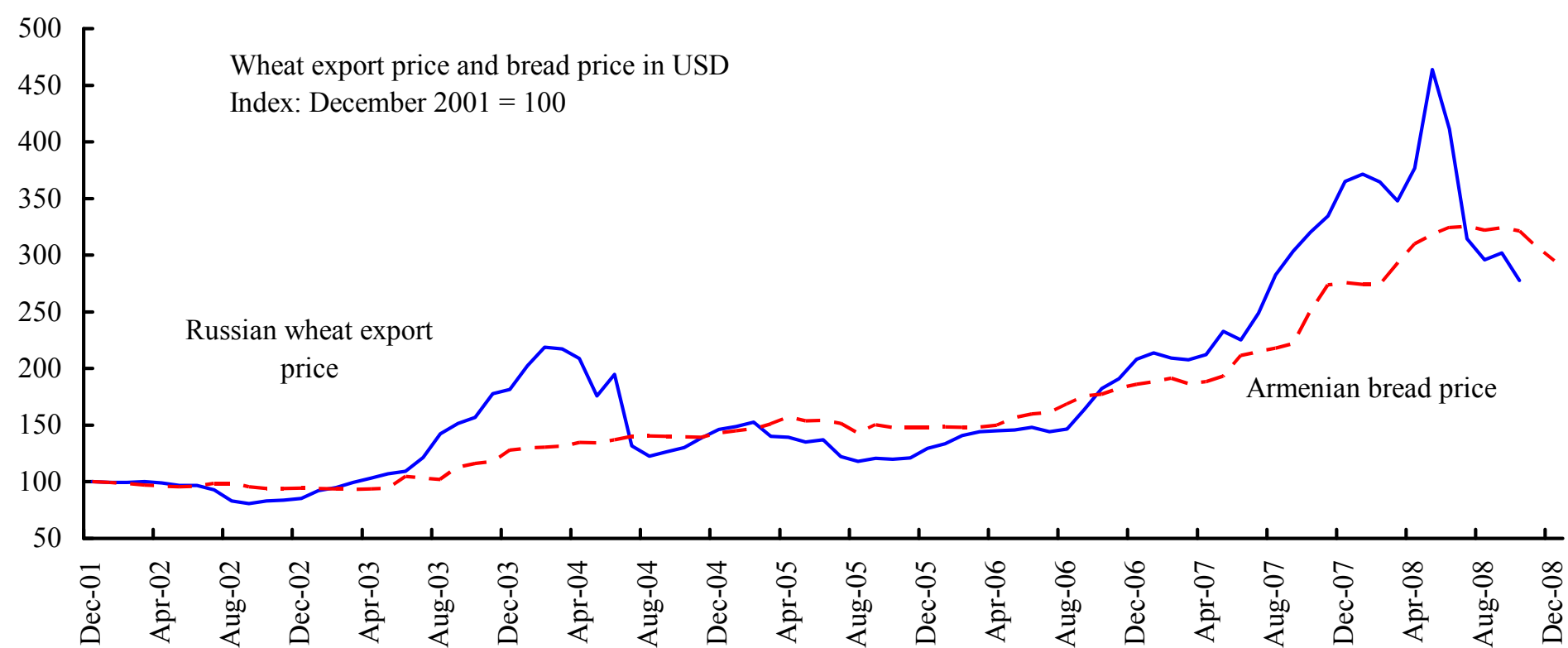
Total tax revenue of mining companies
(in billions of drams)



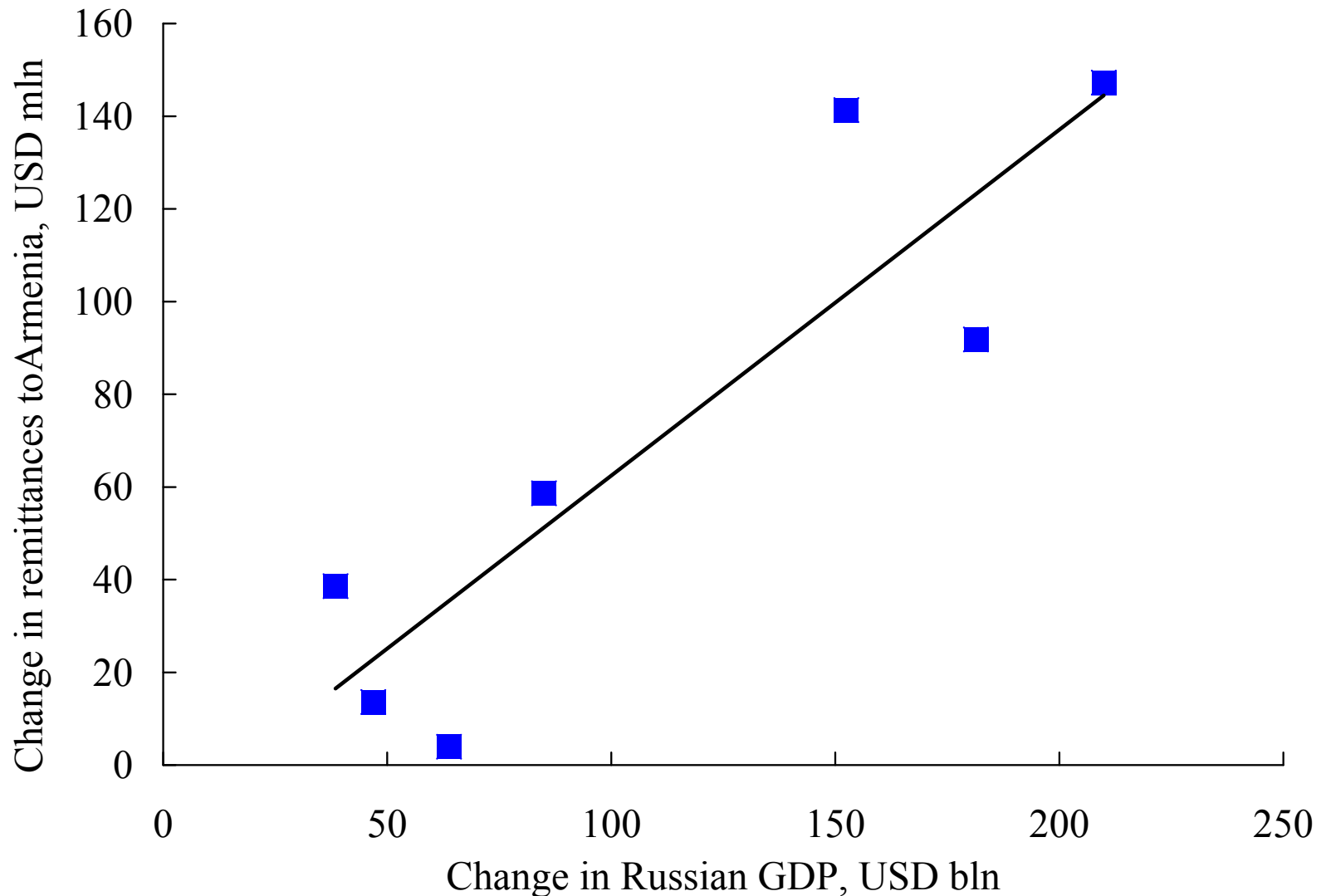
Oil prices have fallen significantly, but the pass-through to Armenian petrol prices is limited



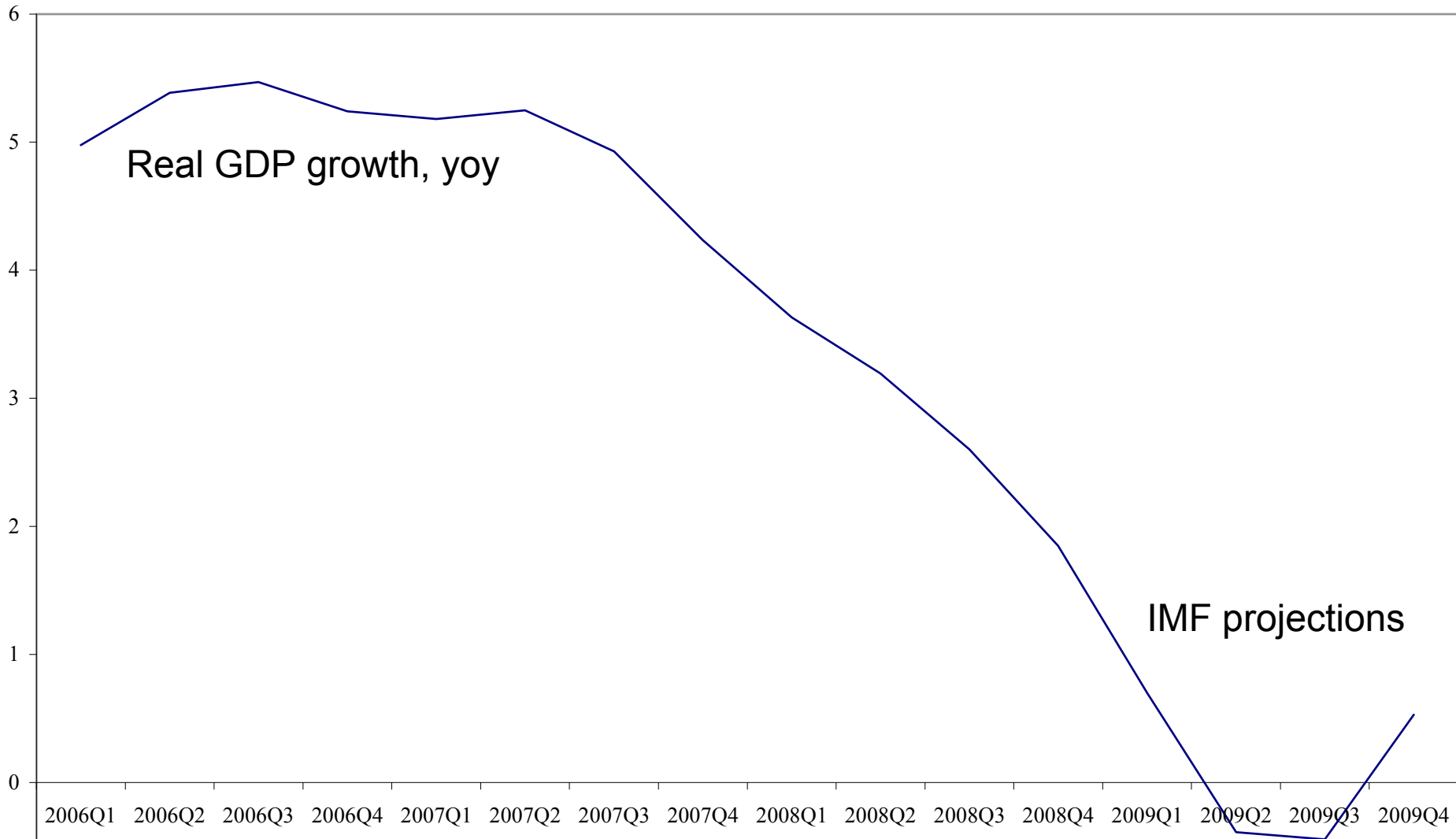
Similarly, the large drop in international wheat prices has not had much effect on Armenian bread prices



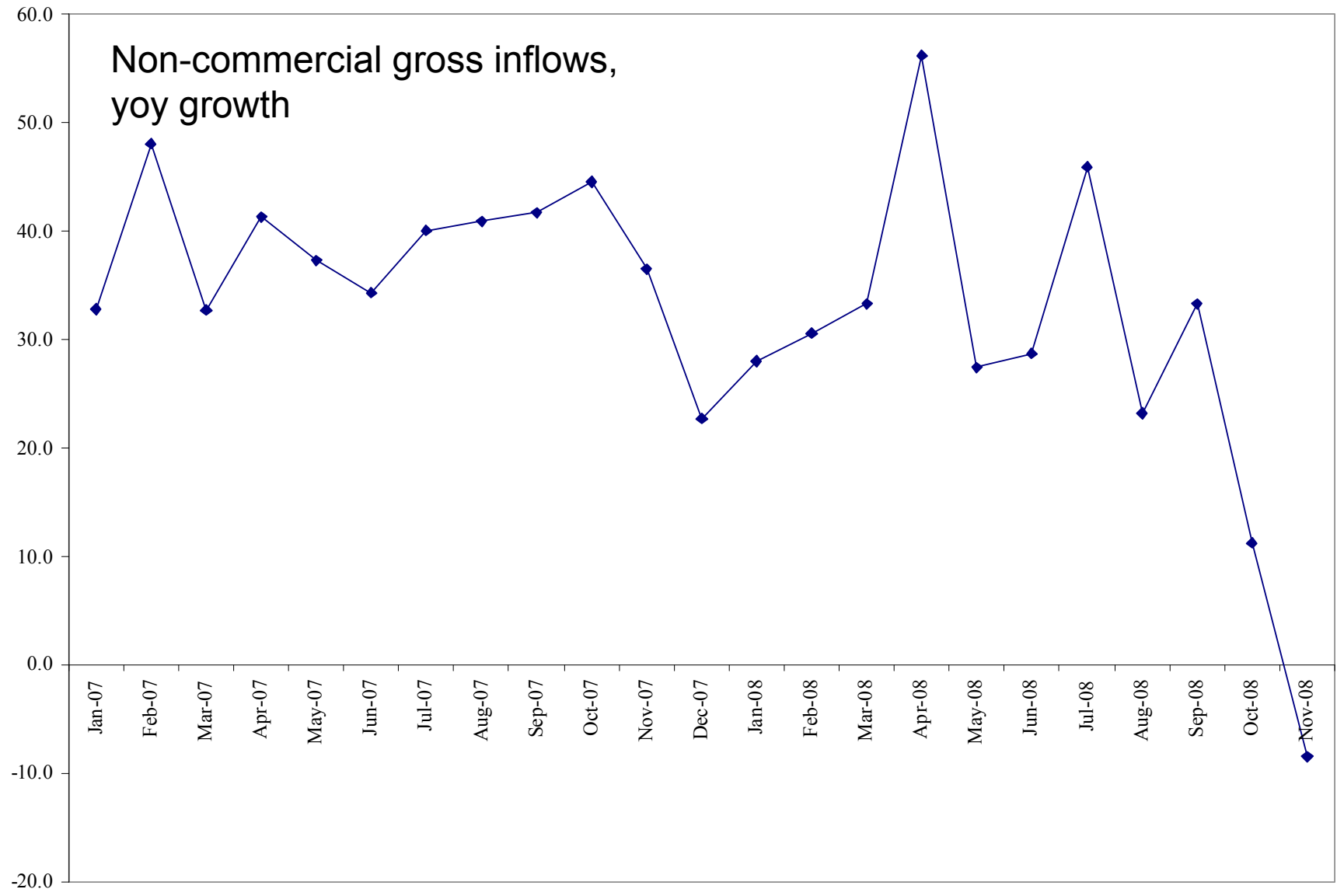
Channel 3: Remittances to Armenia: highly correlated with Russian GDP



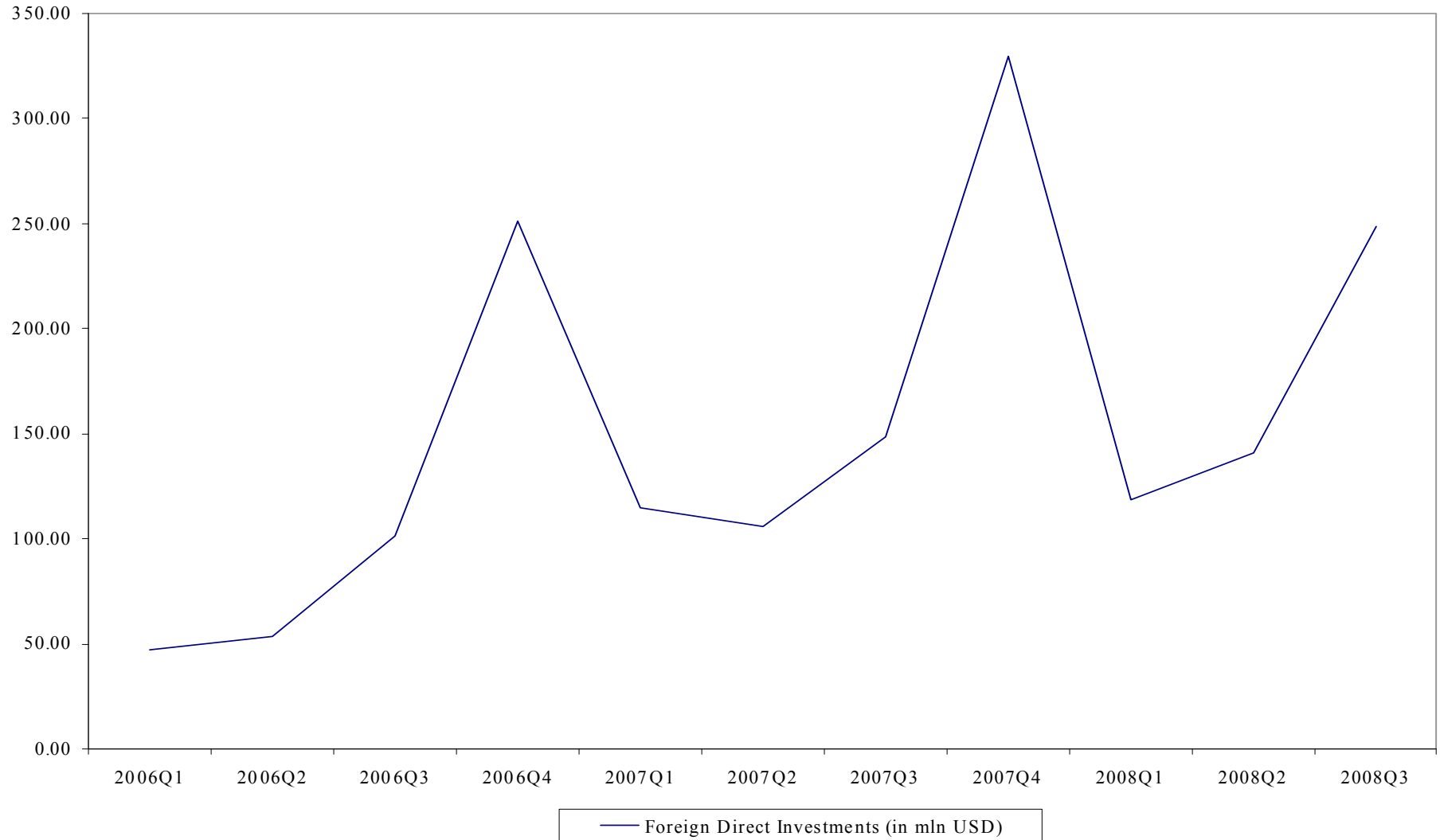
The Russian economy has stopped growing...



...and so have remittances to Armenia



Channel 4: Foreign Direct Investment: no evidence yet of a drop



but a drop is likely to come, given that most FDI comes from Russia

	2004	2005	2006	2007	2008*
FDI (in mln USD)	226.7	244.4	250.7	582.3	594.9
Russian share in total FDI	21.5	2.1	11.5	50.4	72.6

Source: National Statistical Service

* The FDI data for 2008 available up to September