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Russia's Economic Funk Forces Armenia to Raise Interest Rates

By The Moscow Times

January 22, 2015



YEREVAN, Armenia — Armenia's Central Bank raised its key refinancing rate to 9.5 percent from 8.5 percent on Thursday, becoming the latest country to try to protect itself from Russia's financial crisis.

Armenia, a former Soviet state of 3.2 million people, is closely tied to Russia through trade and remittances. It also belongs to Russian President Vladimir Putin's Eurasian Union, a bloc he hopes will rival the European Union.

A plunging Russian ruble, pulled down by a weak oil price and Western sanctions over the Ukraine crisis, has weakened Armenia's currency, the dram, to 478 to the dollar in January. It traded at 404 drams to the dollar a year earlier.

AmRating, Armenia's national rating agency, said in a statement the Central Bank's decision was due to a "decline in demand due to the fall in private remittances, a decline in foreign

investment and inflationary expectations."

Annual inflation stood at 4.6 percent in December, the Central Bank said, up from 2.6 percent the month before. Monthly inflation in December came in at 3.0 percent, compared with 1.3 percent in November.

The government forecasts annual inflation in a range of 2.5-5.5 percent in 2015, the same as last year's target.

Analysts said the decision was influenced by the European Bank of Reconstruction and Development's decision to cut its forecast for growth this year to zero from 3.5 percent.

Moody's also downgraded Armenia's bond rating to Ba3 from Ba2 this month, changing its outlook to negative from stable. It cited declining remittances, uncertain foreign investment, exchange volatility and pressure on foreign exchange reserves.

Russia is Armenia's largest trading partner — bilateral trade exceeded $1.5 billion in 2013, mainly imports to the South Caucasus country, which is nestled between Iran, Georgia and regional rival Azerbaijan.

Money transfers from workers in Russia to Armenia fell in November last year by 35.4 percent year-on-year to $95.1 million, or 82 percent of a total amount of transfers.

Armenia's economy grew by 2.3 percent in the first half of last year but the government said growth in 2014 would be lower than an initially projected 5.2 percent. It forecast 4.1 percent growth in 2015.

The International Monetary Fund cut its forecast to 2.6 percent from 3.6 percent in 2014 and to 3.3 percent from 4.3 percent in 2015.

"Economic growth in Armenia will stagnate this year ... It may even decline," said Vilen Khachatryan, an independent analyst.

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