



Coping With Strong Remittances: The Case of Armenia

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Outline

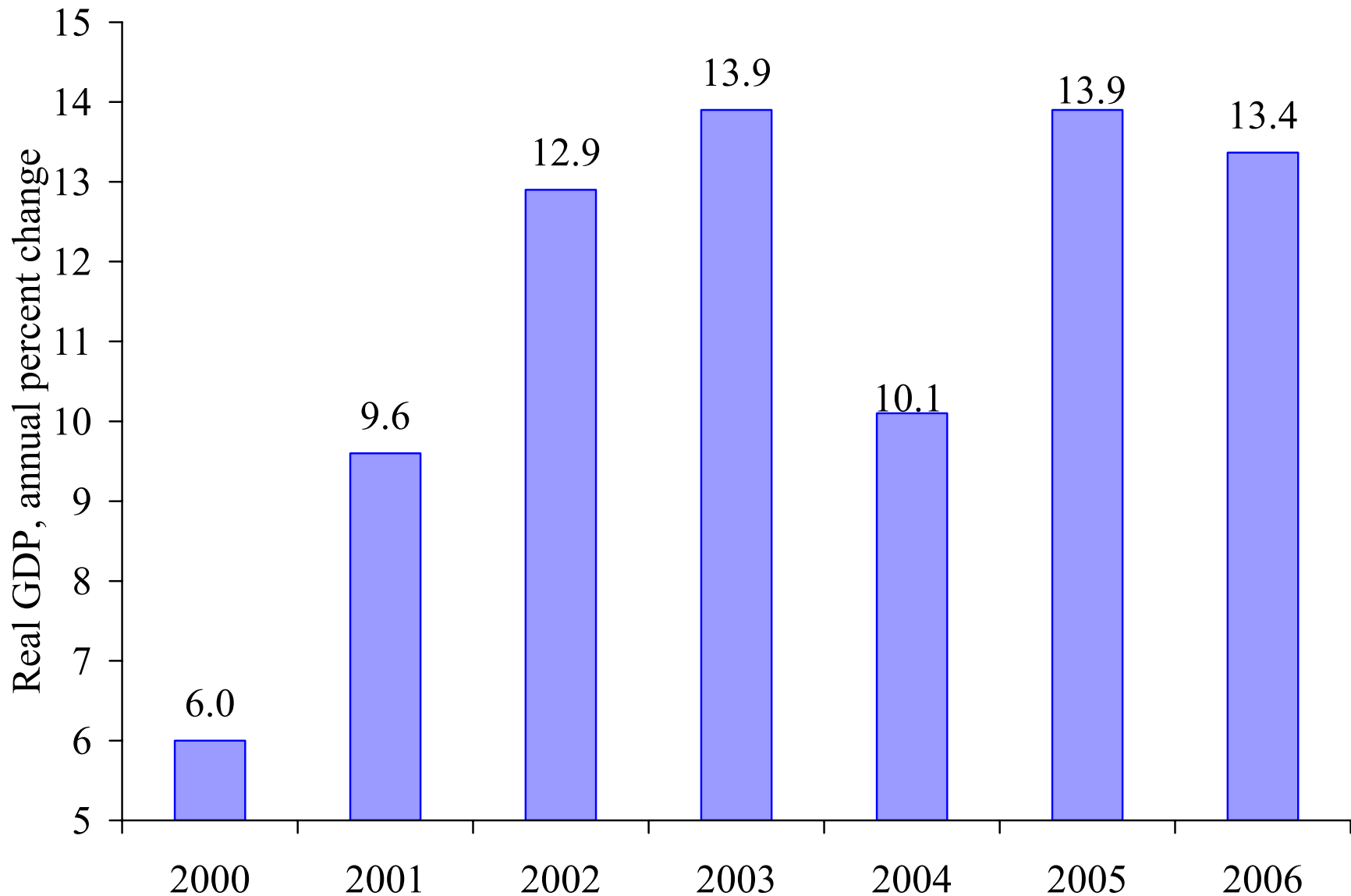
1. Recent economic developments in Armenia
2. Size and sources of remittances inflows
3. Macroeconomic effects
4. Policy response
5. Conclusions



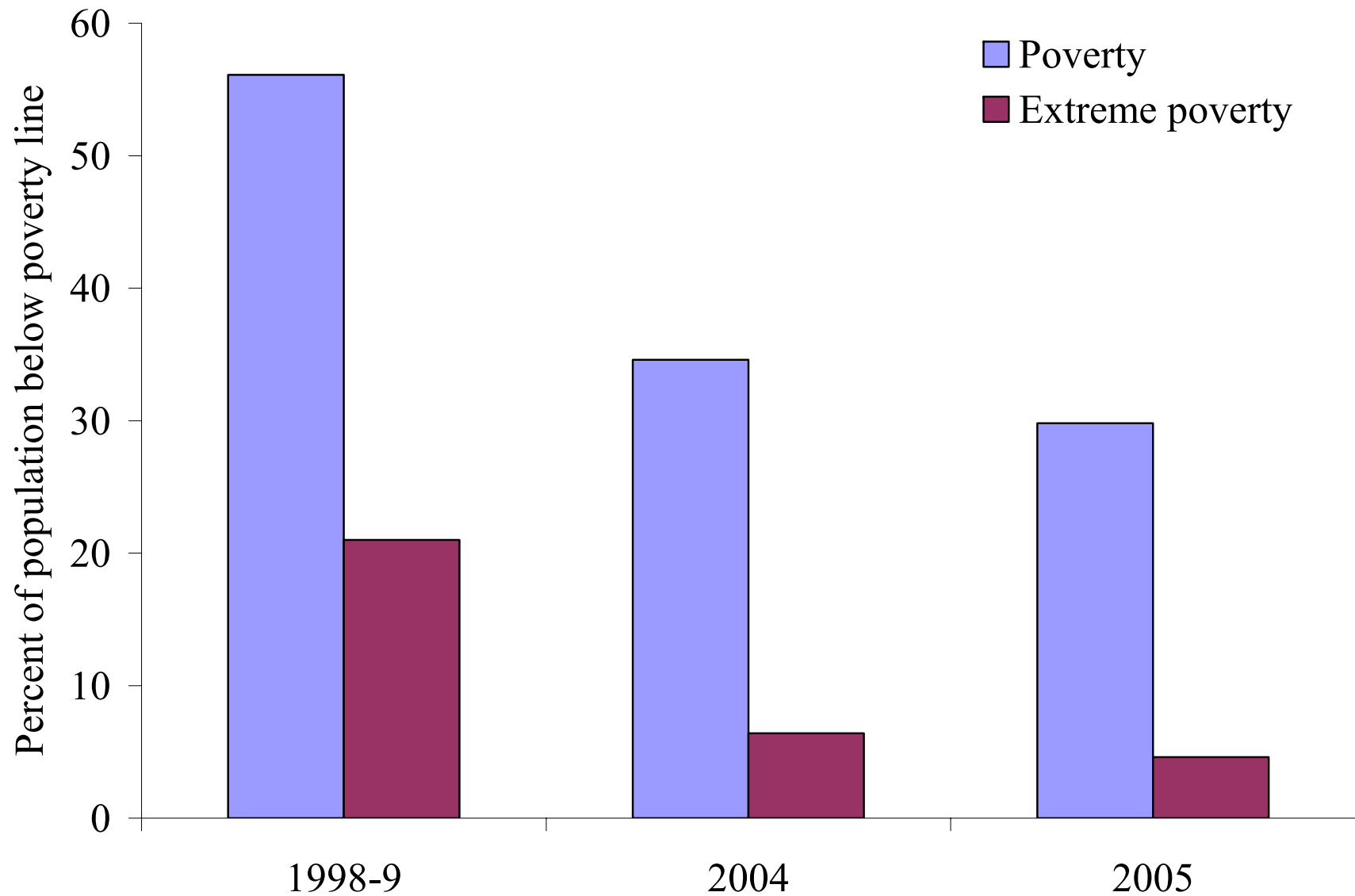
1. Recent economic developments

- Double digit growth
- Declining poverty
- Low inflation
- Falling debt

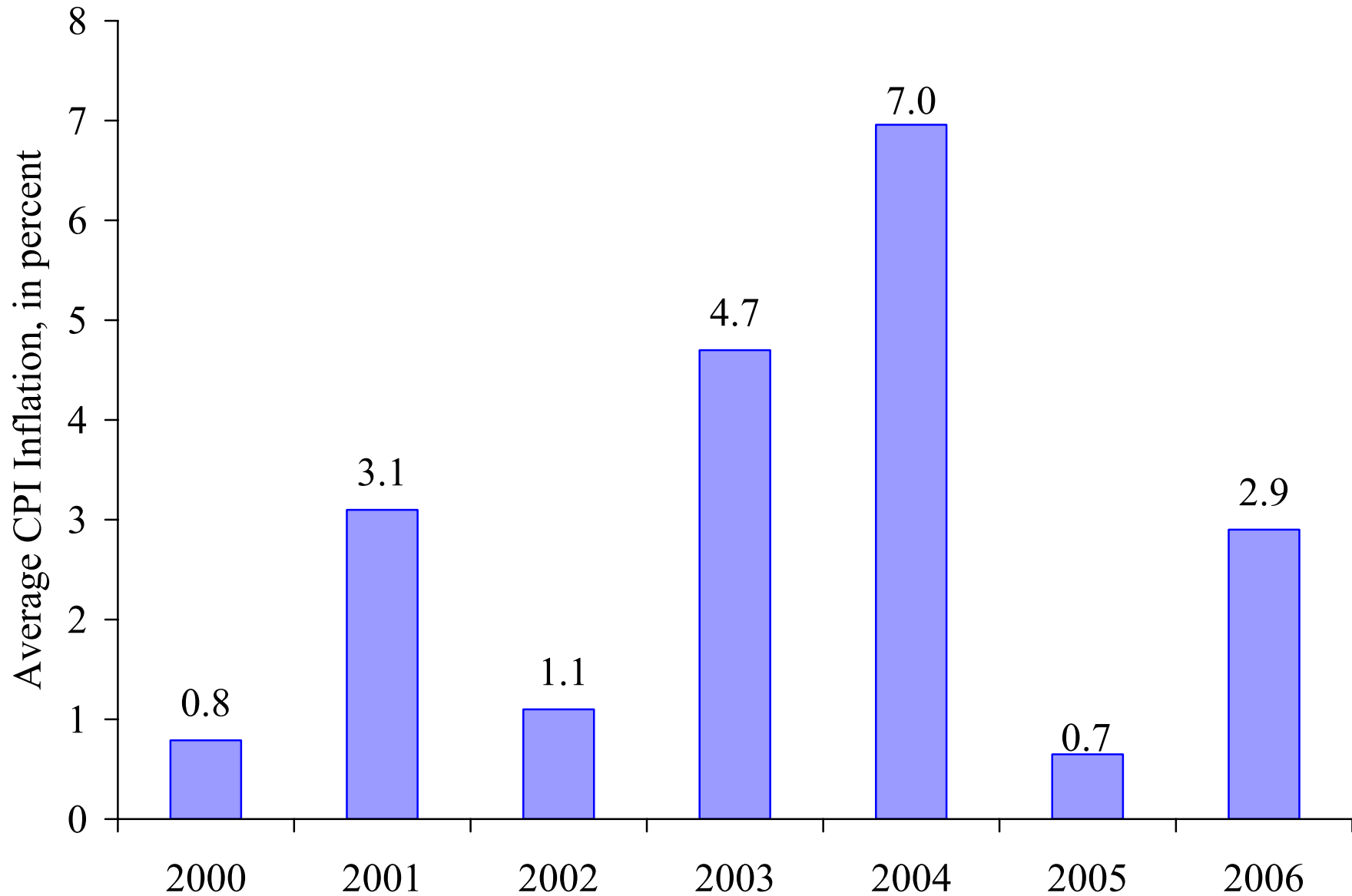
GDP has grown at double digit rates



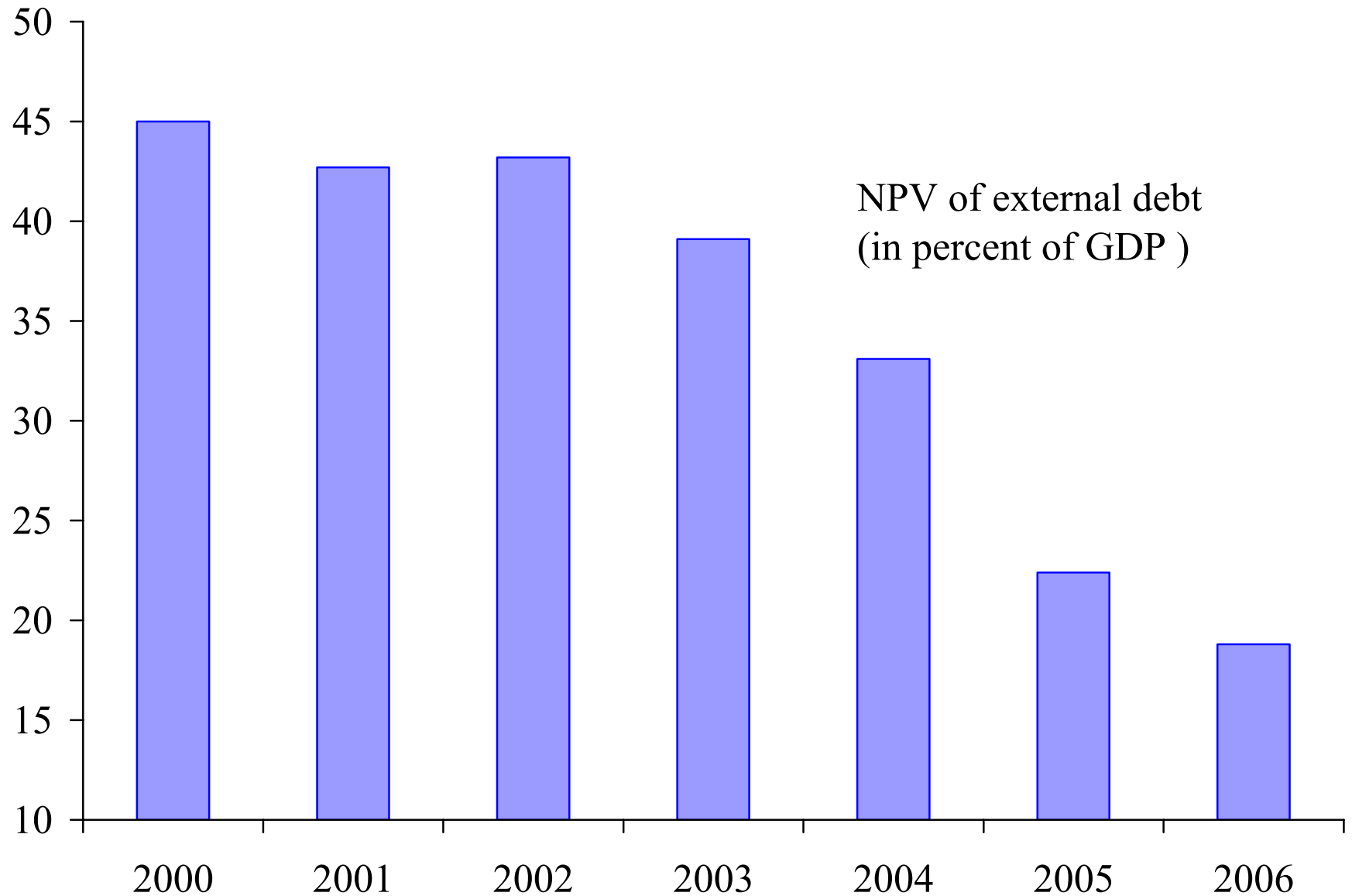
Poverty has declined



Inflation has been low

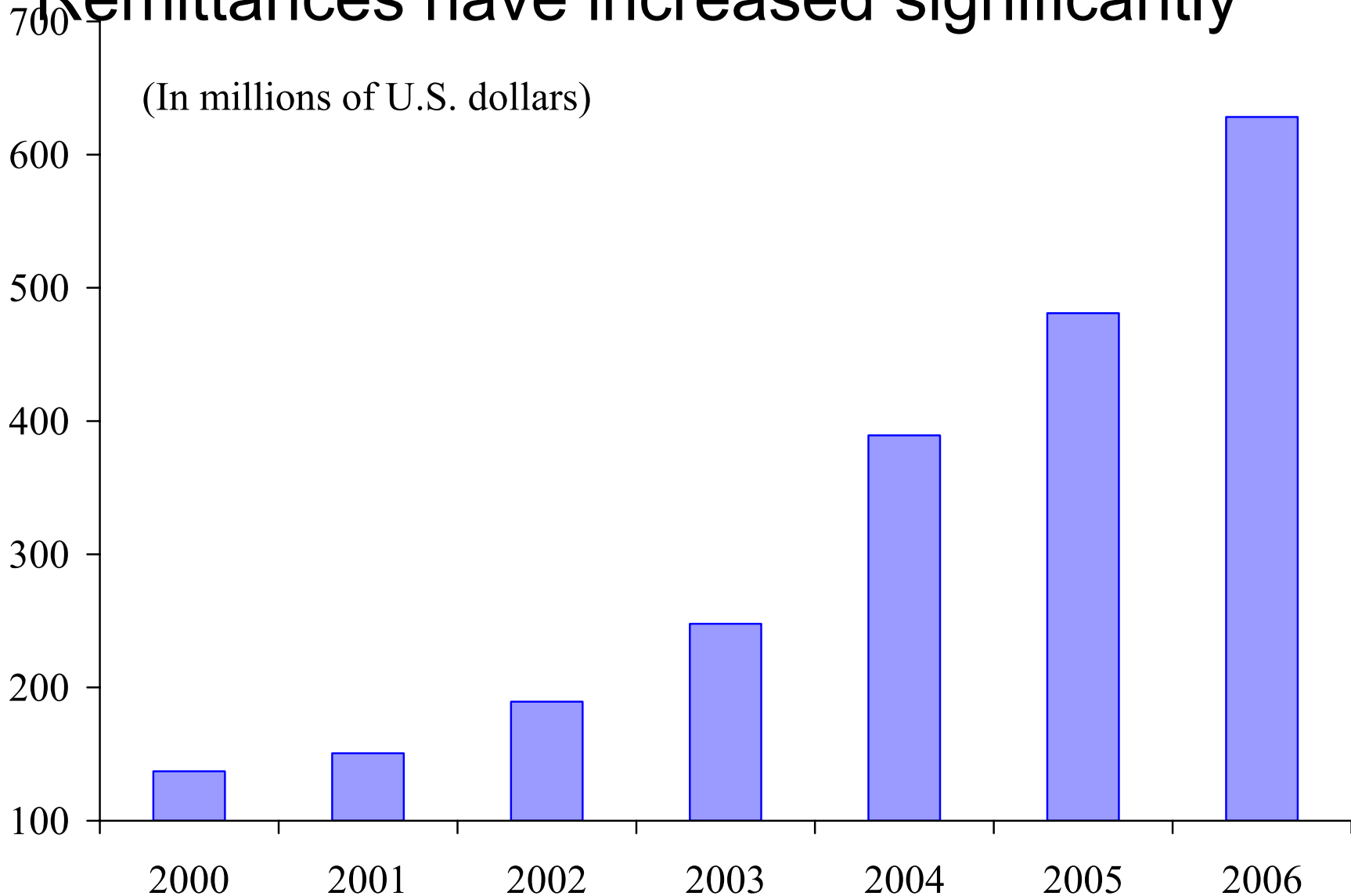


External debt has come down

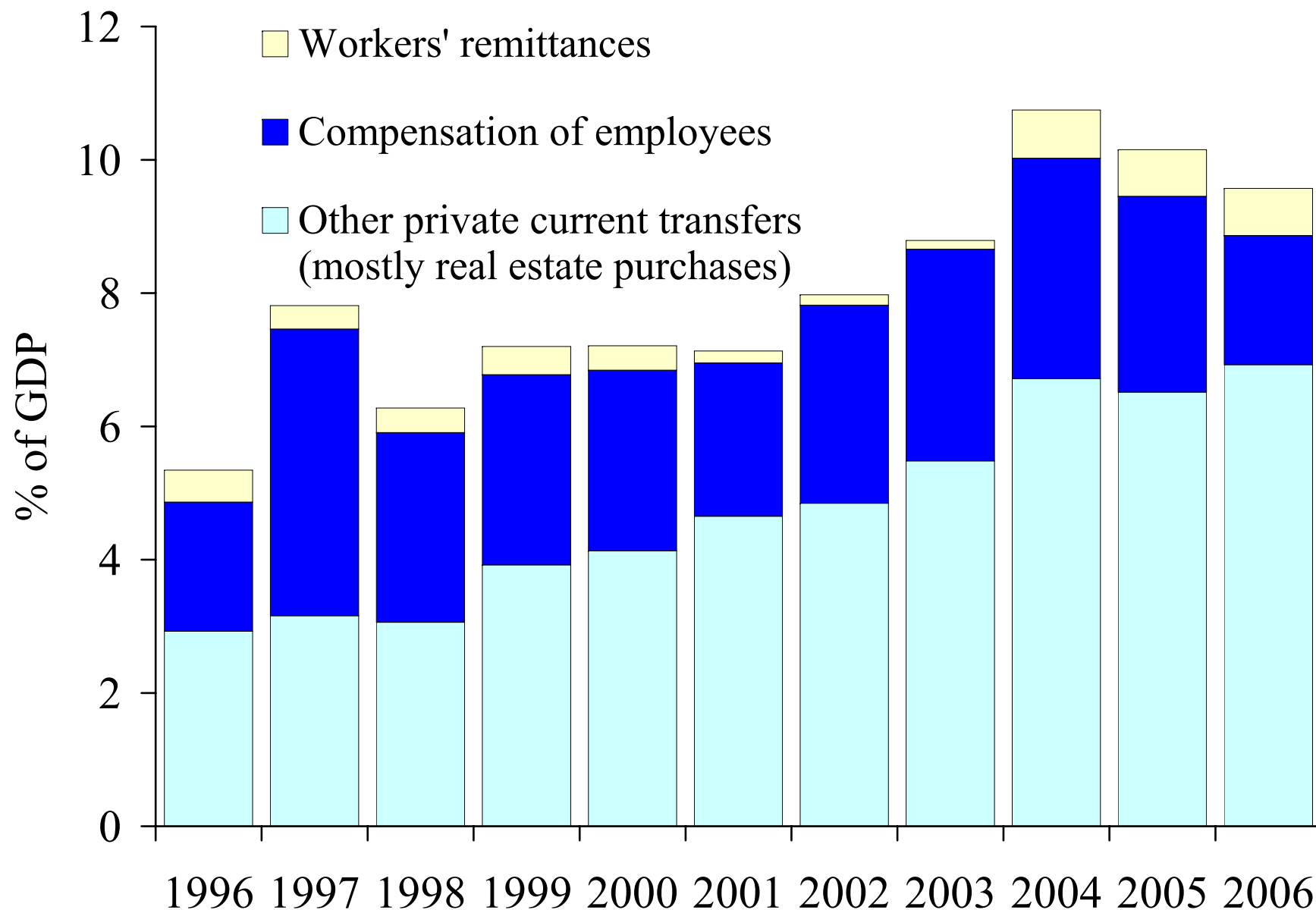


2. Size and sources of remittances

Remittances have increased significantly



Remittances amount to about 10% of GDP

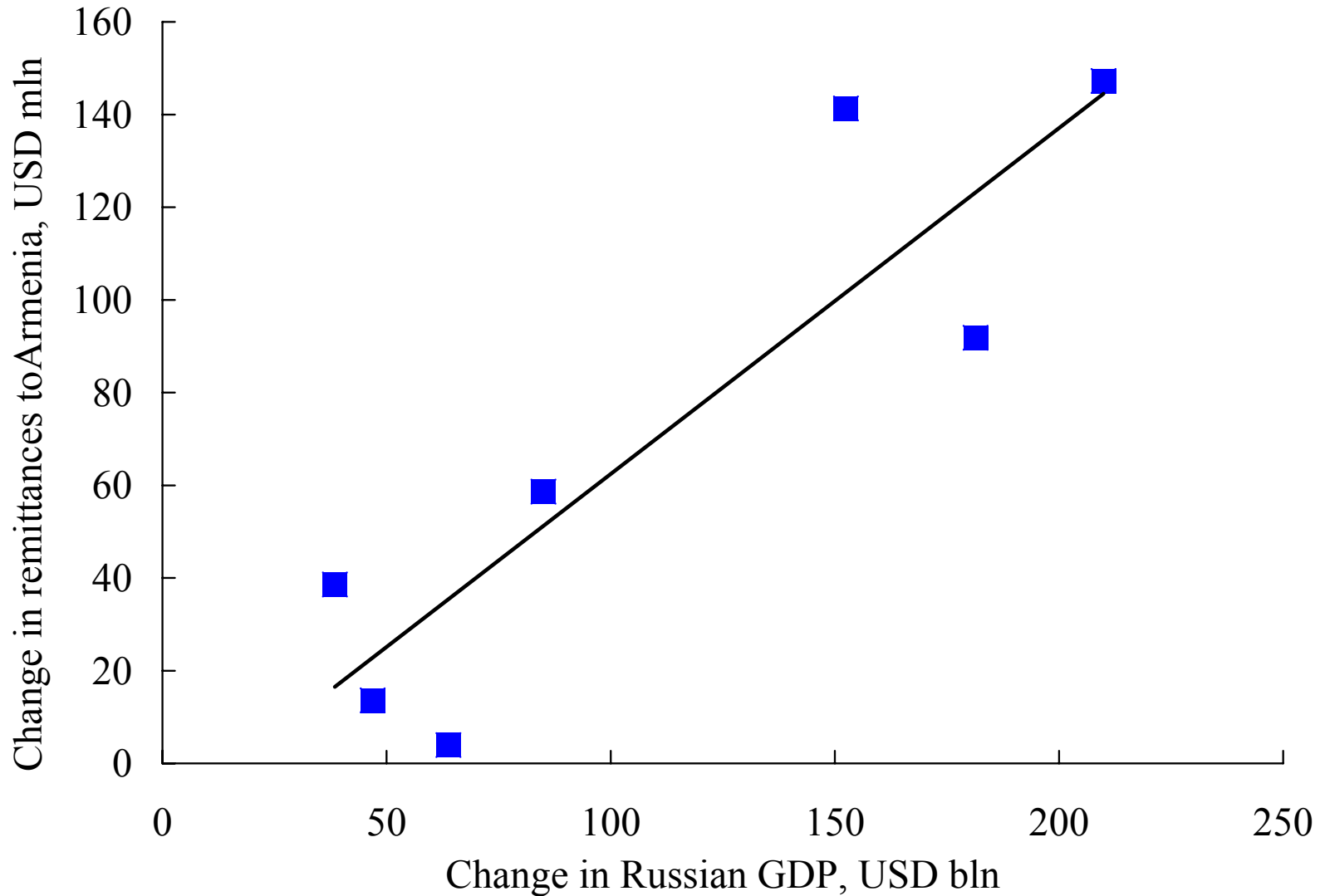




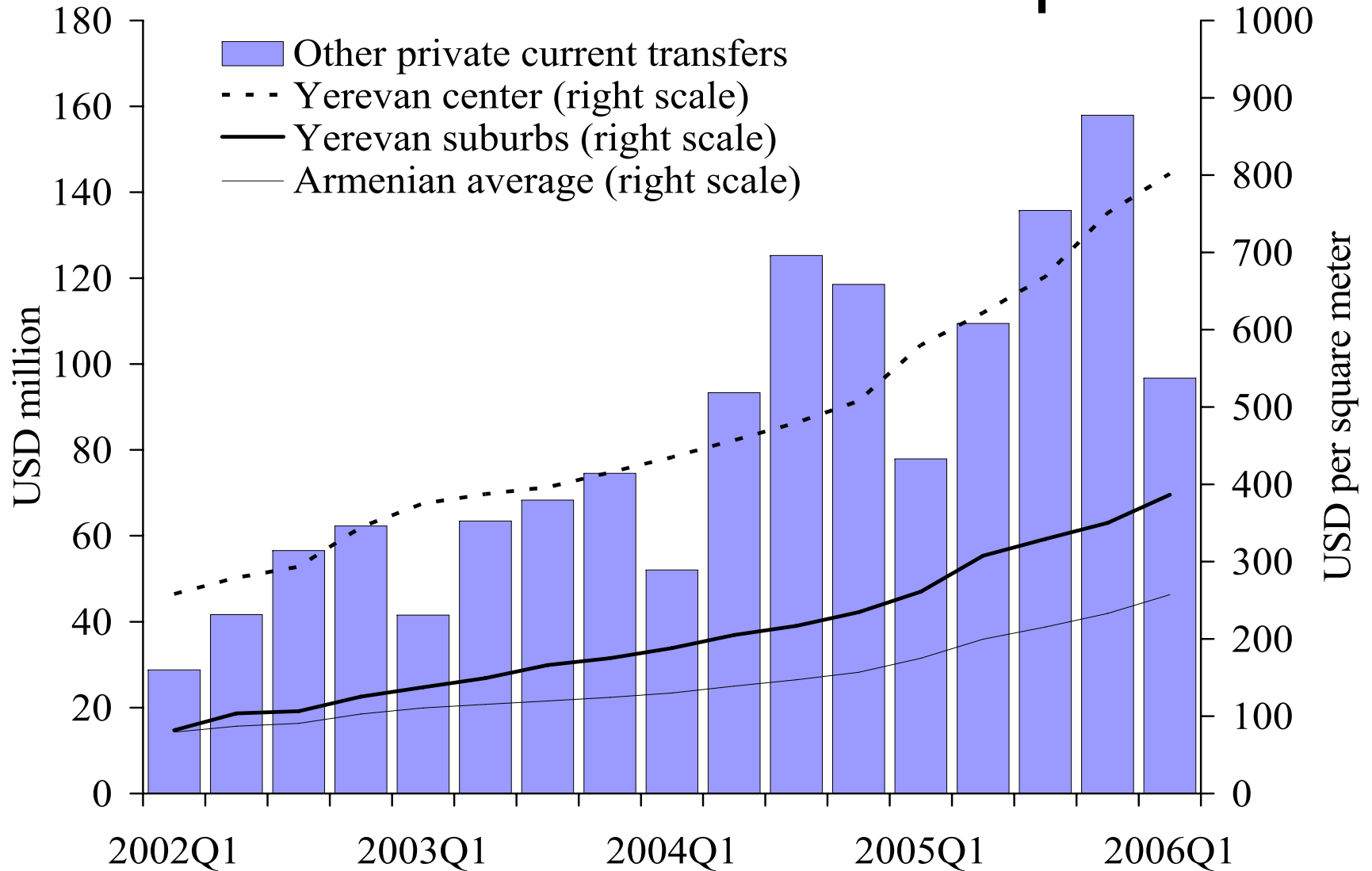
Sources

- a. Most remittances to Armenia (70%) are sent from Russia, and are correlated with Russian GDP growth
- b. Most remittances to Armenia (55-85%) are sent through banks
- c. Most remittances to Armenia (90%) are sent in U.S. Dollars

Remittances to Armenia are correlated with Russian GDP



Other private current transfers are correlated with real estate prices

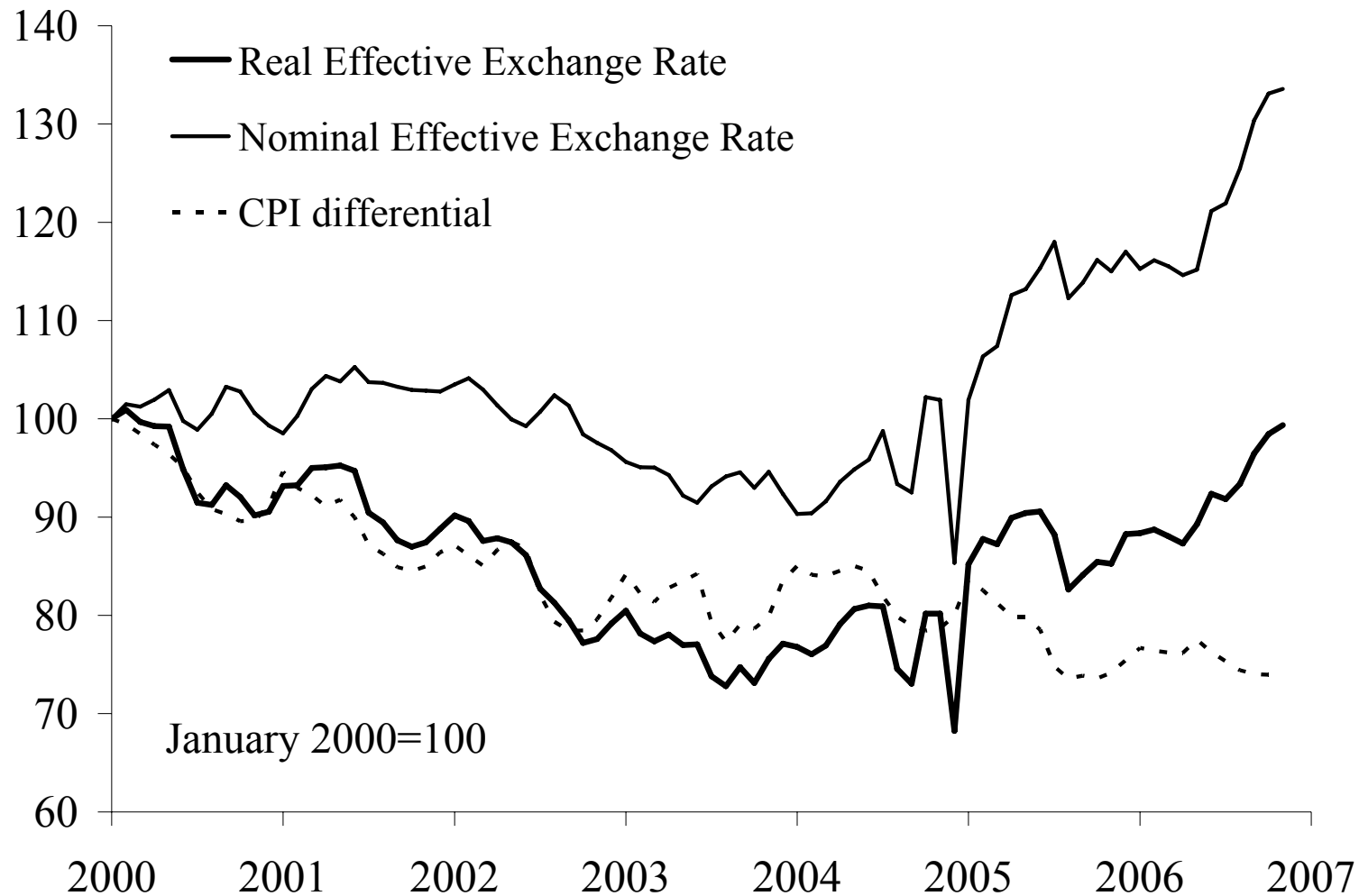




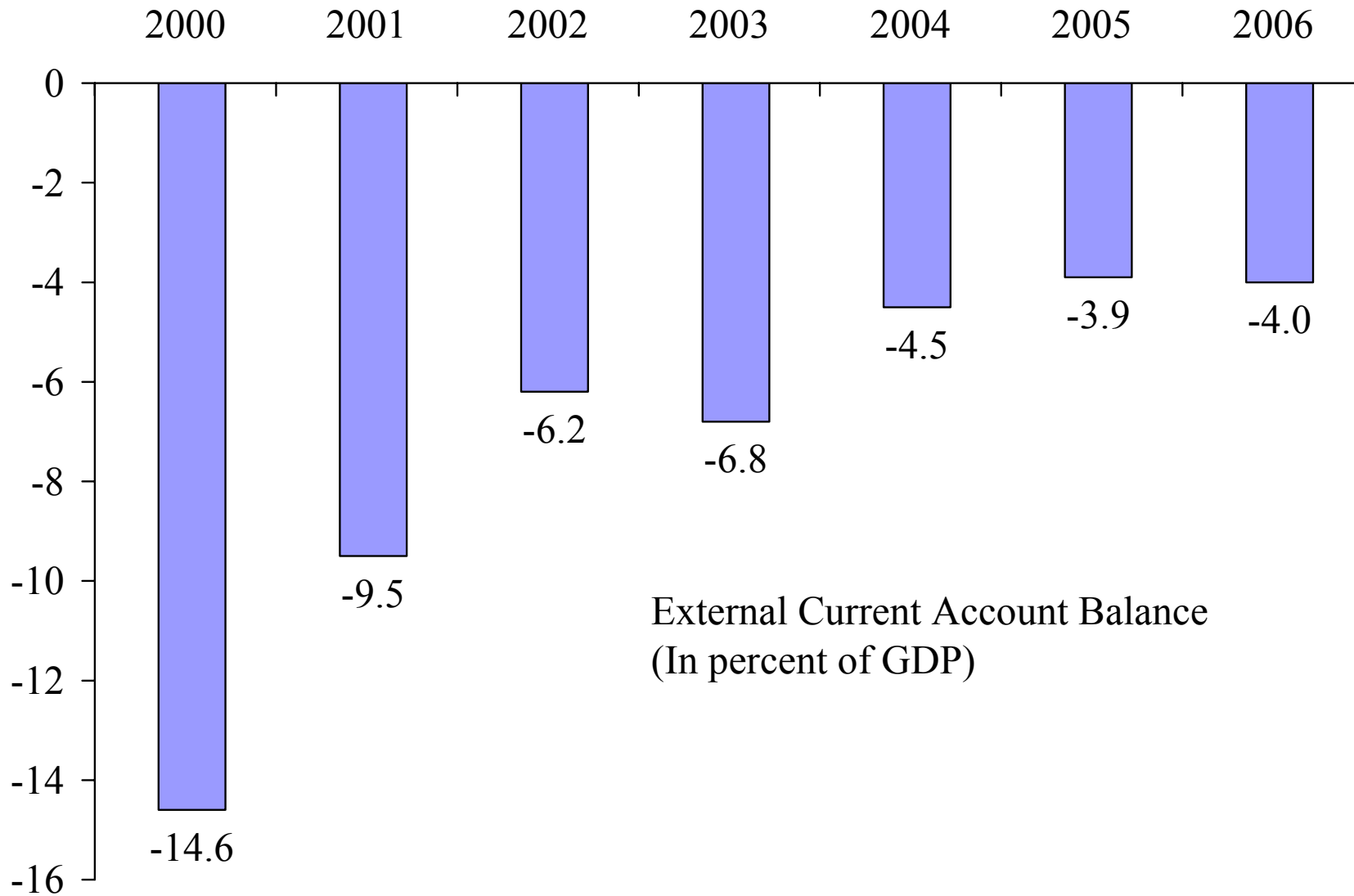
3. Macroeconomic Effects

- The exchange rate has appreciated
- The current account has not worsened
- But exports may have suffered

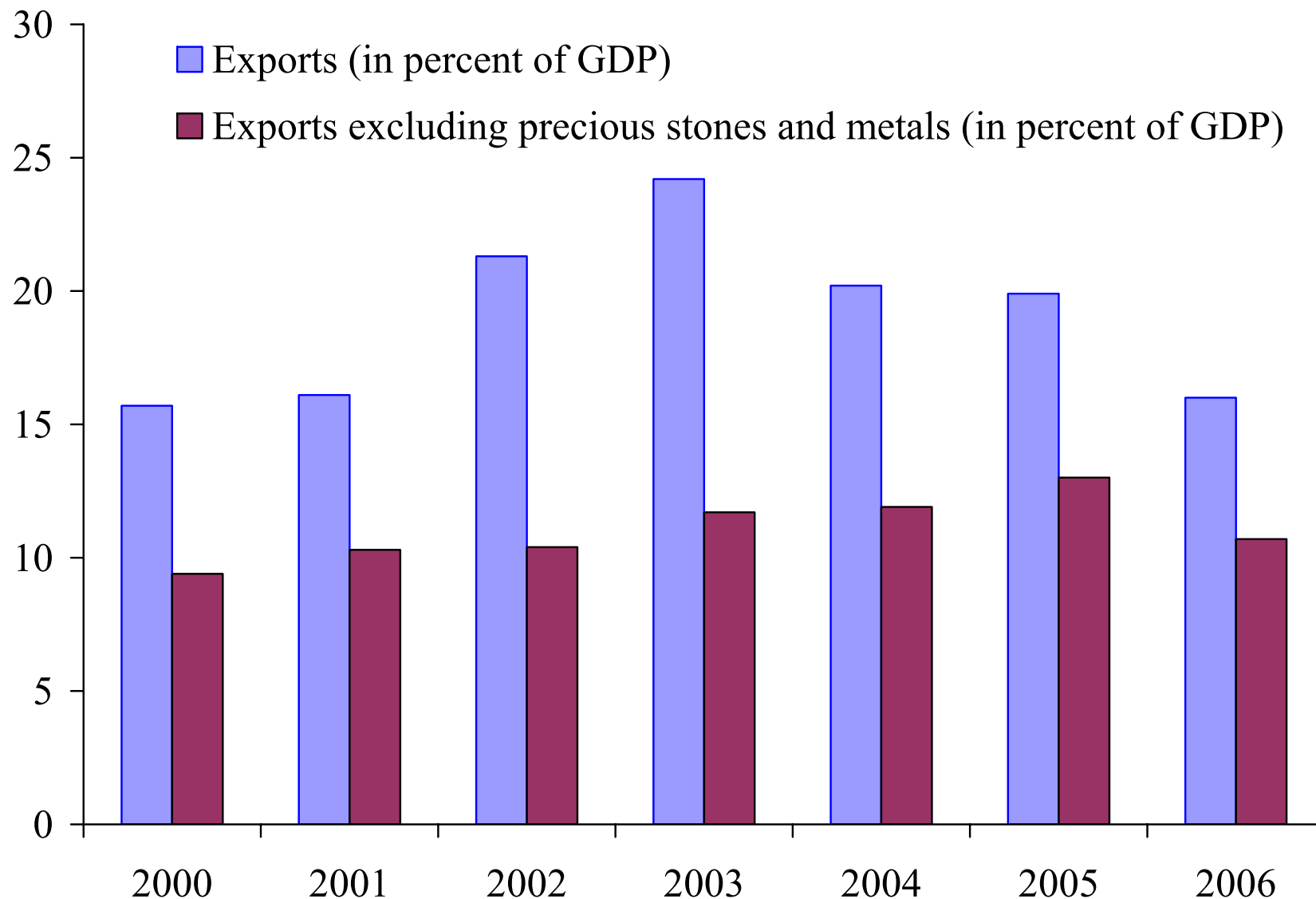
The exchange rate has appreciated significantly



Nevertheless, the current account has not worsened



But exports may have been negatively affected

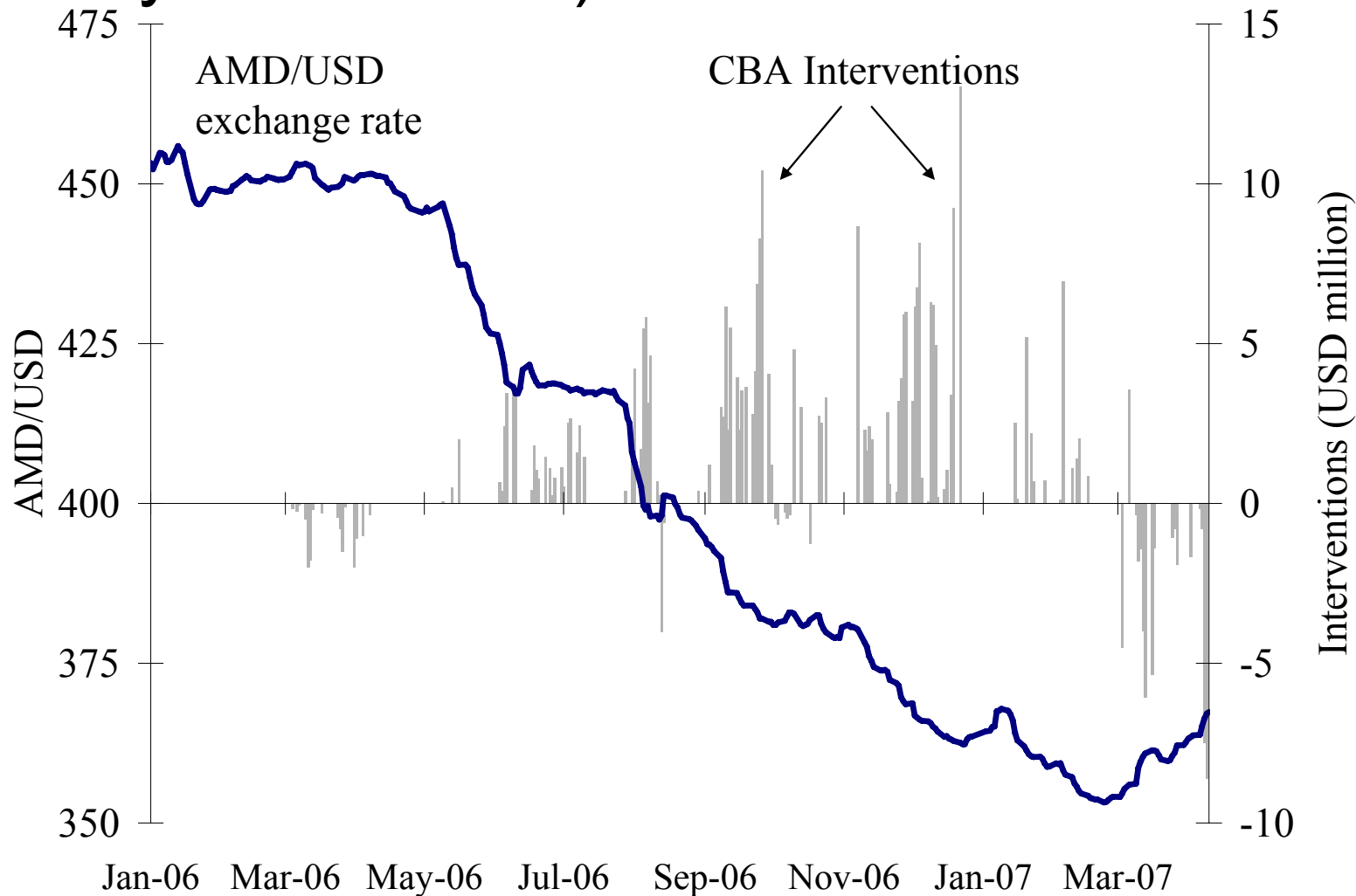




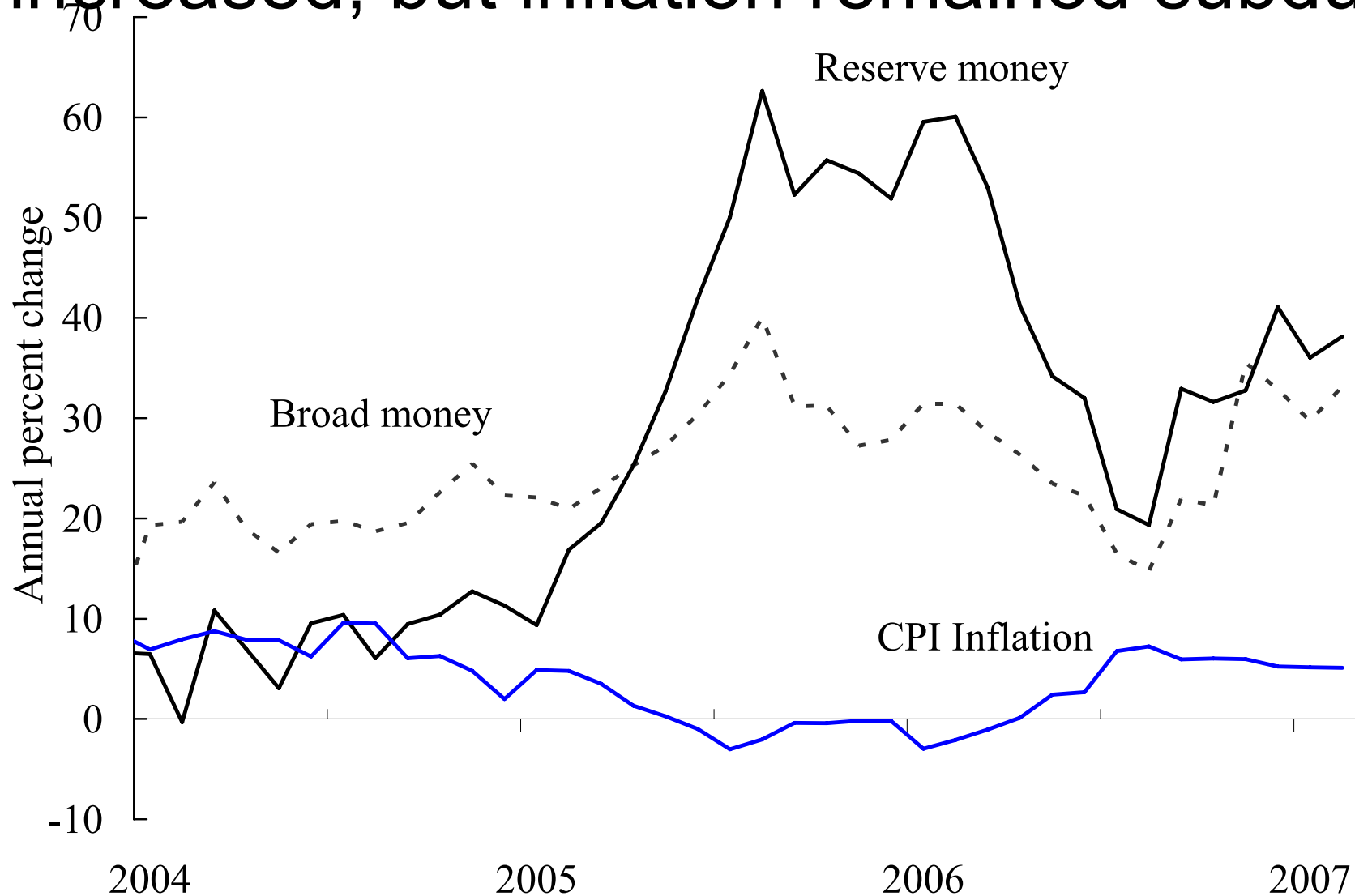
4. Policy response

- Broadly flexible exchange rate
- Focus on price stability
- Tight fiscal policy

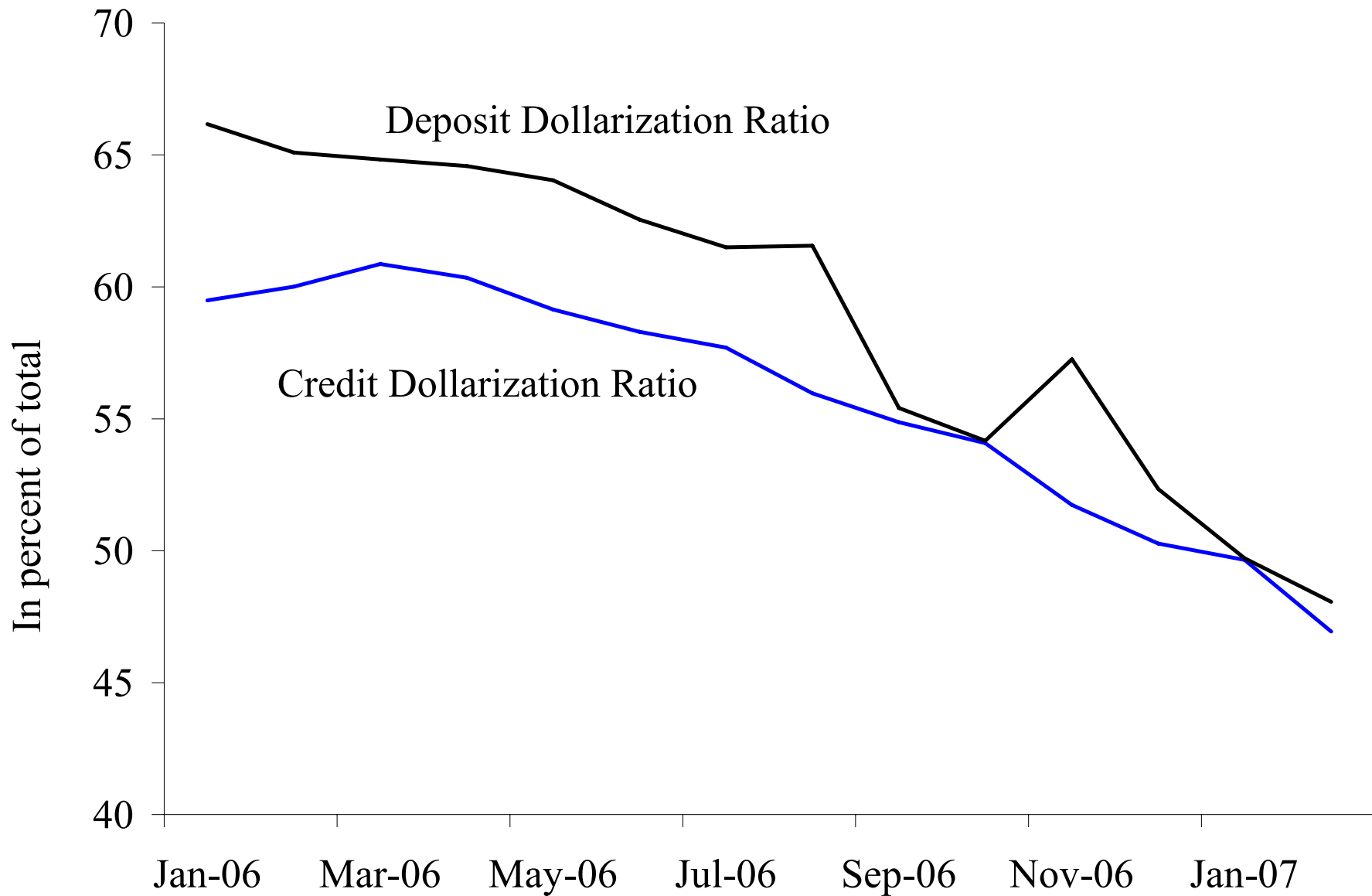
The CBA has let the exchange rate appreciate, while smoothing volatility by large forex purchases (mostly unsterilized)

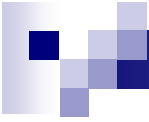


As a result, monetary aggregates increased, but inflation remained subdued

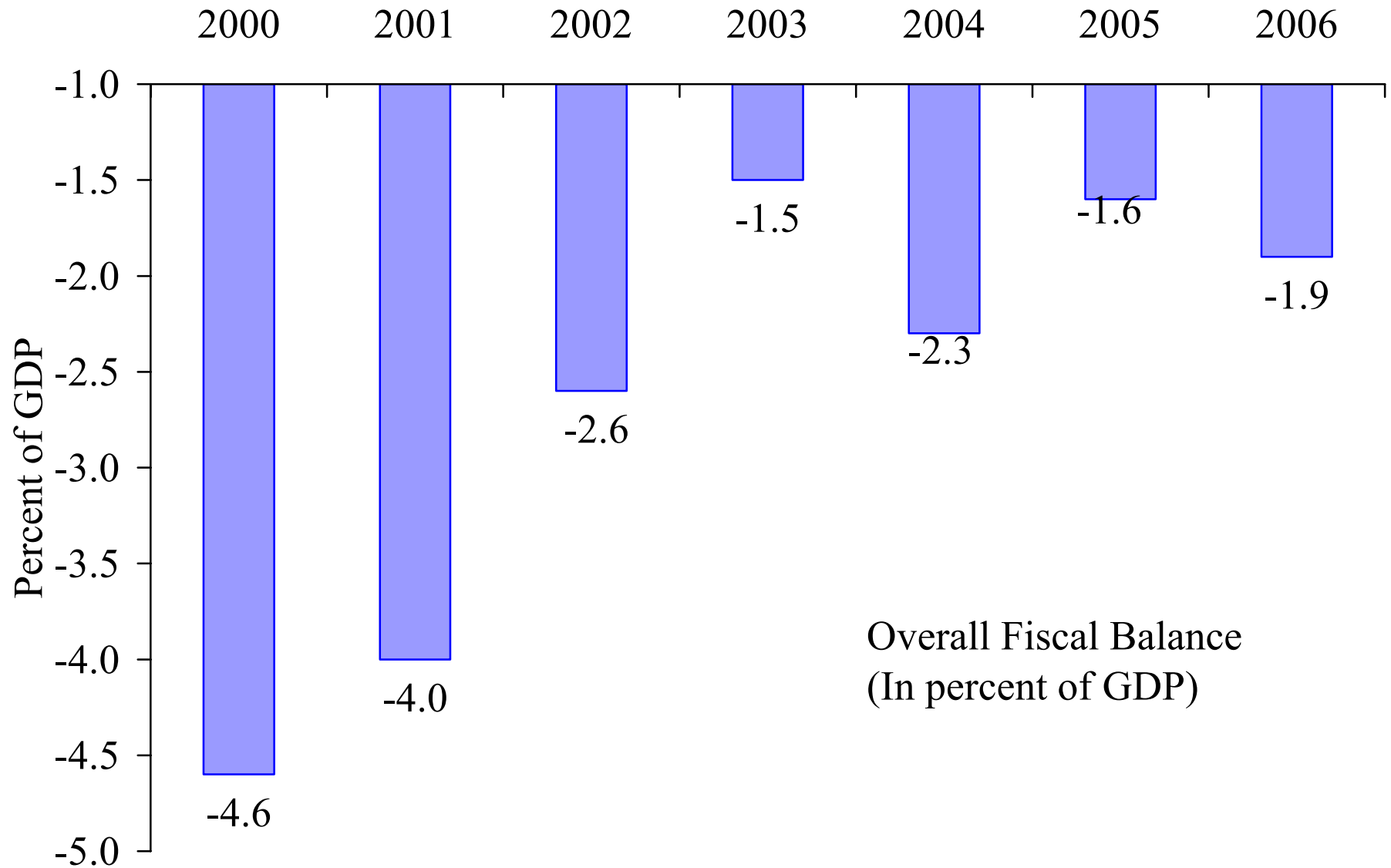


...partly due to dedollarization





Fiscal policy has remained tight





5. Conclusions

- The Armenian authorities have done a good job at managing foreign exchange inflows:
 - They have focused on price stability
 - They have maintained a broadly flexible exchange rate (with interventions used mainly to smooth out volatility)
 - They have maintained a tight fiscal policy
- As a result,
 - Inflation has remained low
 - Growth has remained high
 - External debt has remained low



Conclusions (continued)

- While performance thus far has been good, there are concerns about the effects of real appreciation on external competitiveness
- This underlines the importance of structural measures to raise productivity
- Such measures could include improvements in technology, marketing, management, infrastructure, the overall business climate, and an increase in domestic competition.