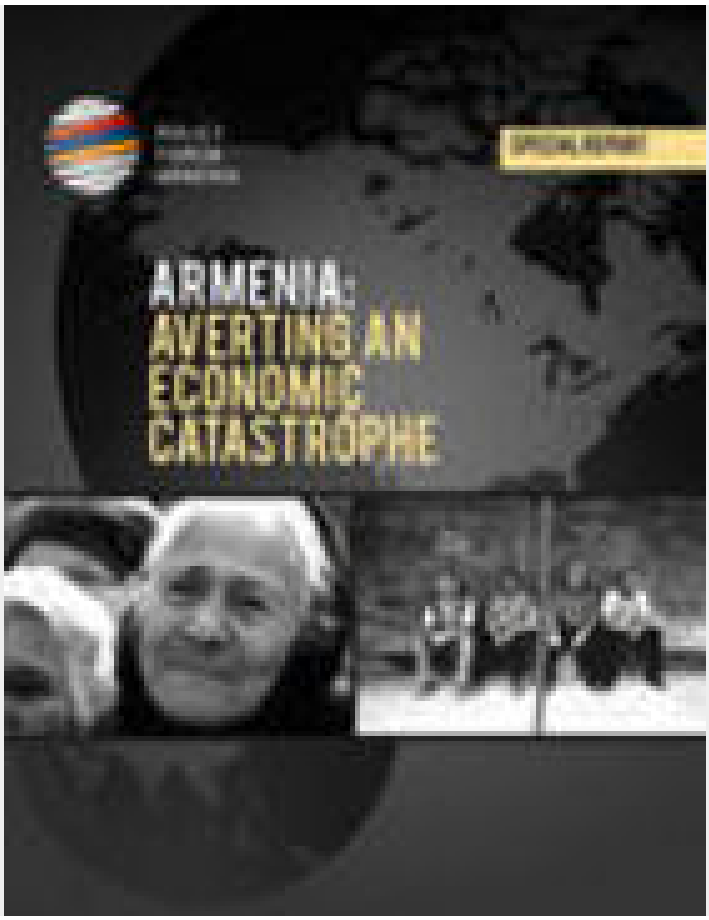
ARMENIA: AVERTING AN ECONOMIC CATASTROPHE

Posted on March 4, 2012 by Keghart



Category: Opinions

Special Report

Policy Forum Armenia, February 2012
EXECUTIVE SUMMARY

Armenia is beginning to show signs of a classic balance-of-payments crisis in the making. An unsustainable de facto exchange rate peg and structural policies are resulting in massive external imbalances, which will eventually lead to abandonment of the peg (i.e., devaluation) with very serious implications for the over-exposed banking sector and already high public debt levels. Huge external repayments scheduled for 2012-14 and adverse developments in Europe are making the situation much worse and are likely to accelerate the process. Unless drastic changes in the economic policy direction and political-economy landscape are carried out, we estimate the likelihood of a large devaluation of the dram and/or debt default within the next 3 years to be very high.

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In 2009, Armenia underwent one of the worst economic declines in the world following the 2007-08 global crisis. But while the outcome in 2009 was mainly a result of the global turmoil made worse by domestic problems, what is transpiring now is largely due to domestic problems, which will be amplified by external shocks. These home-grown problems—much of which are in the realm of political will, rather than lack of resources or geography—are the main focus of the report. In it, we point out that the economy has not adjusted to the global shocks of 2007-08 and that there are clear

signs of more pain to come exacerbated by new headwinds from Europe.

The country's political leadership needs to fully internalize these problems and related risks and address them expeditiously. So far it appears that the lessons of 2009 have largely been wasted and no significant change in policy direction was pursued, which may have better prepared Armenia for what is likely to come next. Instead, the elements of the same crony capitalist practices—where a select few have used their disproportionate access to power and influence over economic decision-making for their personal gain—have been reinforced, at the expense of growth, public health, education, and national security. This is not only immoral but in many ways also illegal and needs to change. Armenia's window of opportunity to build a viable economy and address its severe social and demographic problems is closing rapidly.

The effective handling of challenges facing the country should begin by forming a legitimate authority to oversee the new policy course on behalf of the people of Armenia. The upcoming parliamentary election provides that opportunity. Allowing people to exercise their free will and creating a sense of moral justice would enhance the public buy-in and—all other things being equal—would make policy measures more effective. On the contrary, yet another fraudulent election will undoubtedly lead to more political tension, social upheavals, and more challenges to be tackled down the road, many of which may prove unmanageable for the ruling regime this time around. The situation requires a true government of national unity that would lay out a workable agenda and reach out to all constructive forces in Armenia and the Diaspora to help accomplish that. These efforts would require adequate professional skills but also the air-cover of a truly national and clean political leadership to be successful.

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