

Global Economic Outlook and Policy Challenges for Armenia

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IMF Business Coffee with Journalists

Yerevan, December 5, 2014



Outline

Global Outlook

Armenia's Outlook and Challenges

Armenia Policy Priorities

An uneven global recovery continues

Real GDP Growth Projections

(Percent change from a year earlier)



World

U.S.

Euro Area

**Emerging
markets**

China

Russia

Armenia

2013

3.3

2.2

-0.4

4.7

7.7

1.3

3.5

2014

3.3

2.2

0.8

4.5

7.4

0.2

2.6

2015

3.8

3.1

1.4

5.0

7.1

0.5

3.3

Important downside risks remain

Geopolitical risks (Russia-Ukraine, Middle East)

Greater risks from key emerging markets (e.g.China, Russia)

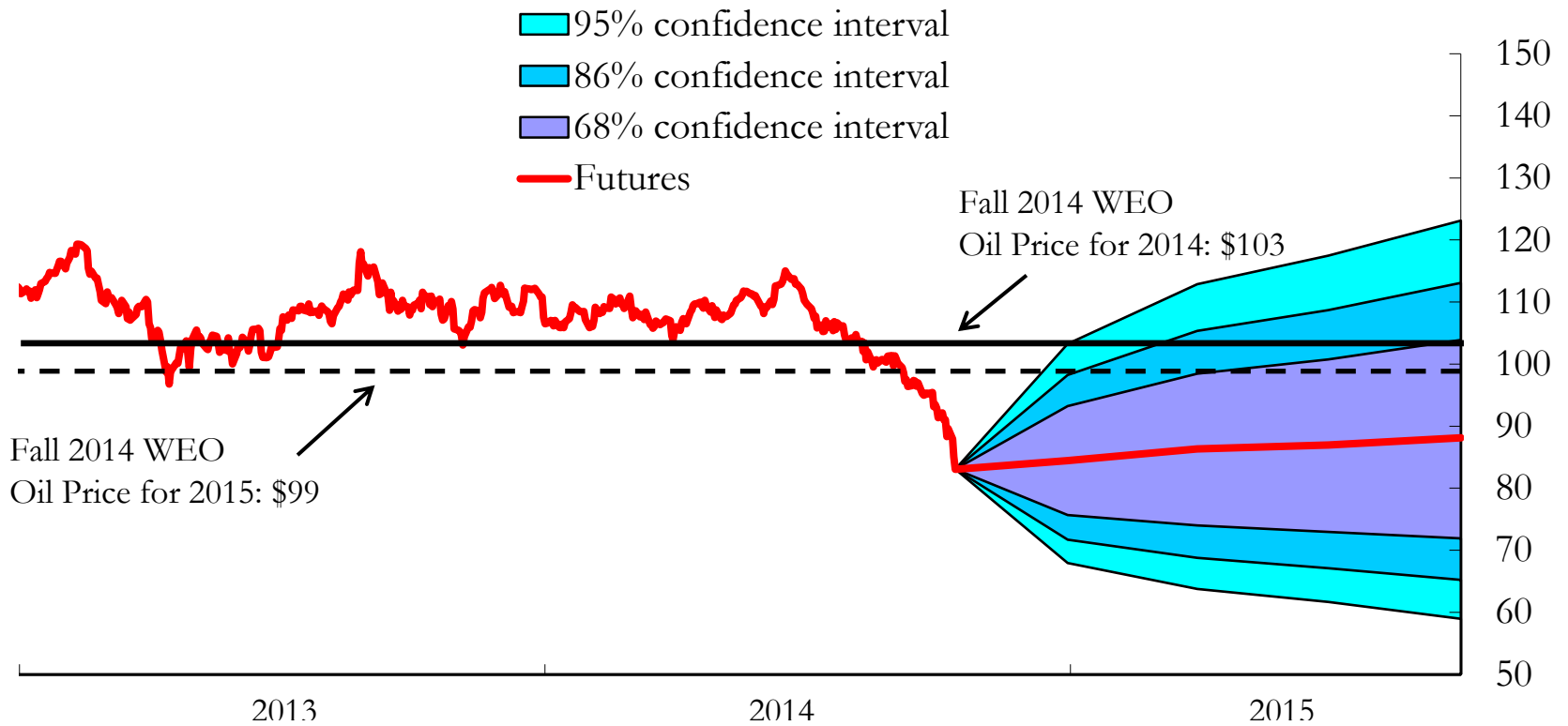
Strengthening of the US economy and the US dollar

Slow growth in key advanced economies, especially EU

Oil prices are declining considerably, with sizeable risks in both directions

Brent Crude Oil Price¹

(U.S. dollars per barrel)



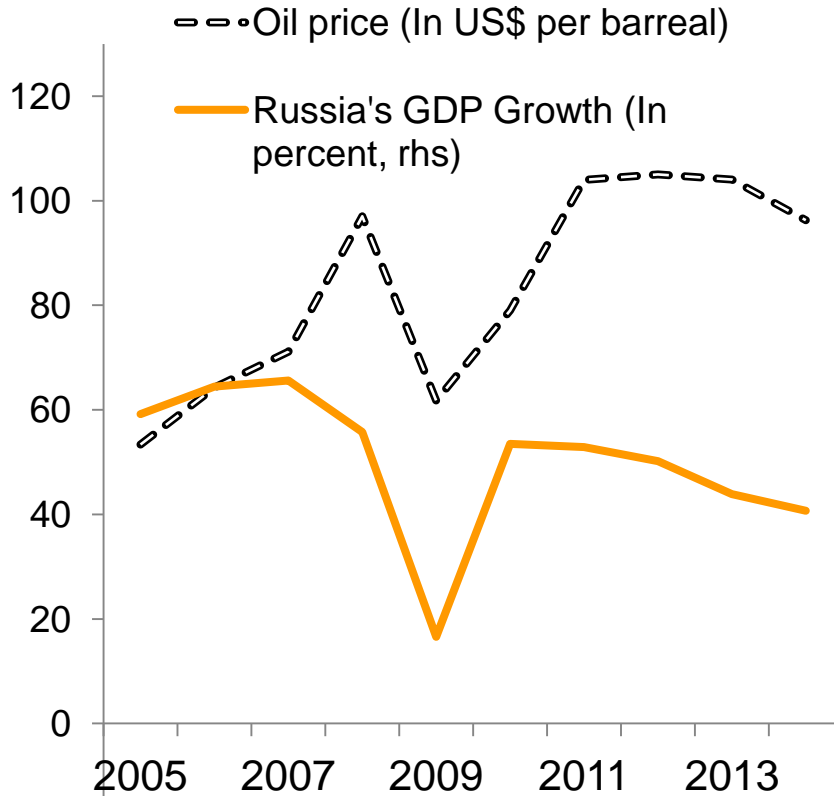
Sources: Bloomberg; and IMF staff calculations.

¹Derived from prices of futures and options on October 15, 2014.

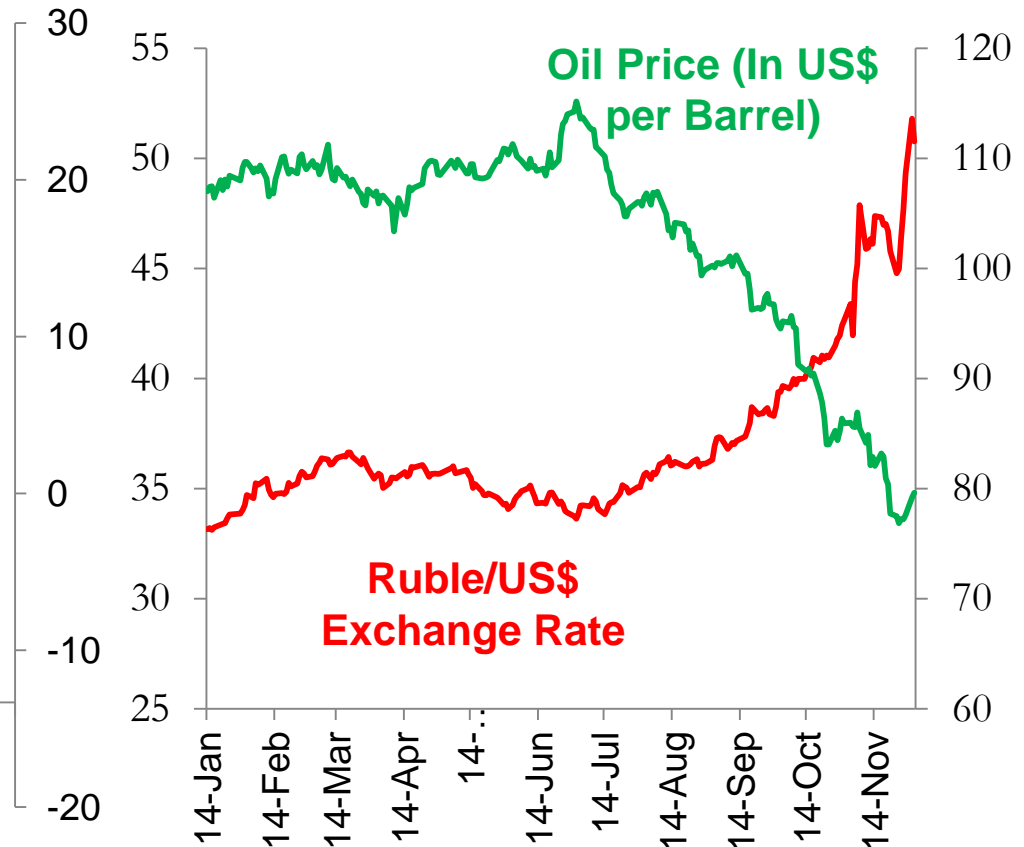


How is this affecting the Russian economy?

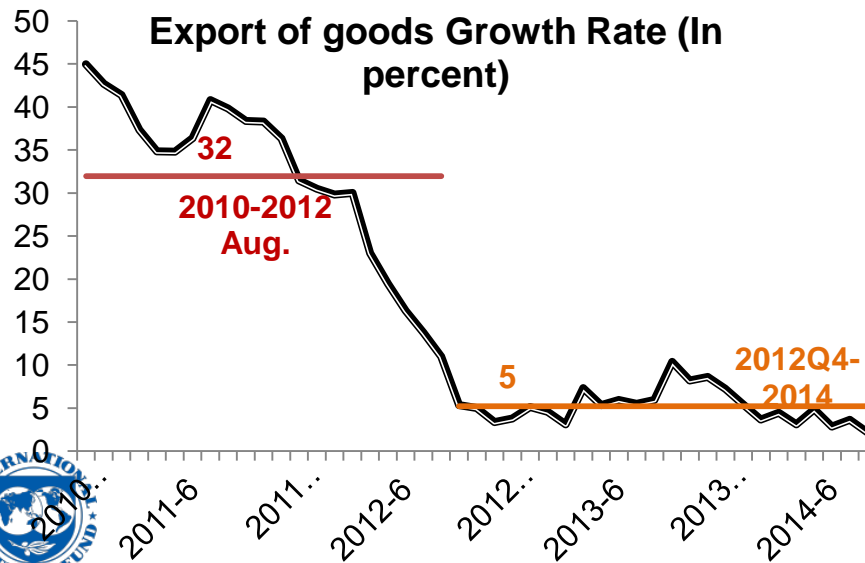
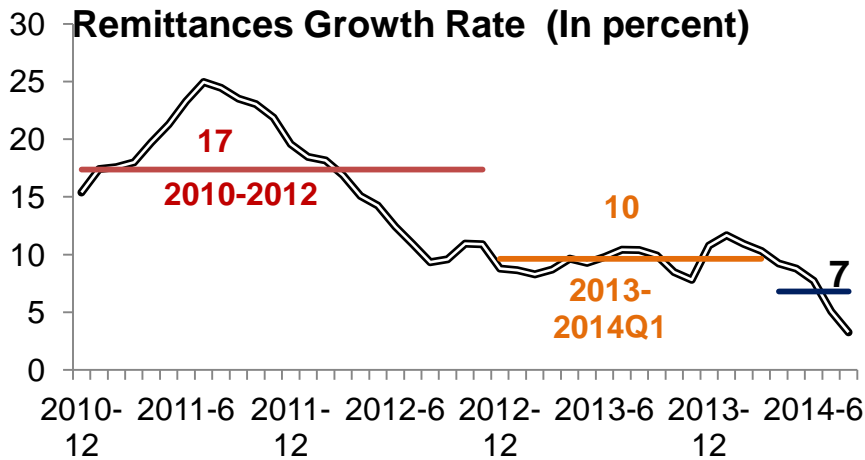
Growth in Russia is highly correlated with oil prices



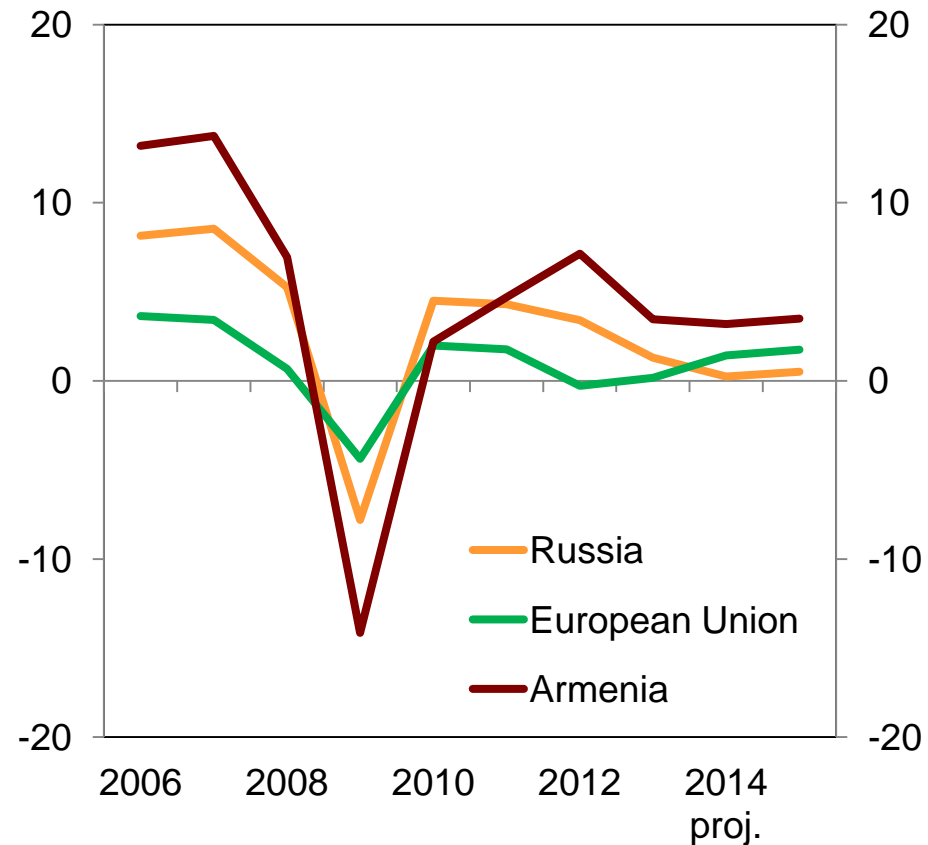
The Ruble/US\$ exchange rate is also highly correlated with oil prices



How is this affecting Armenia? Growth is slowing, because of weak exports and remittances



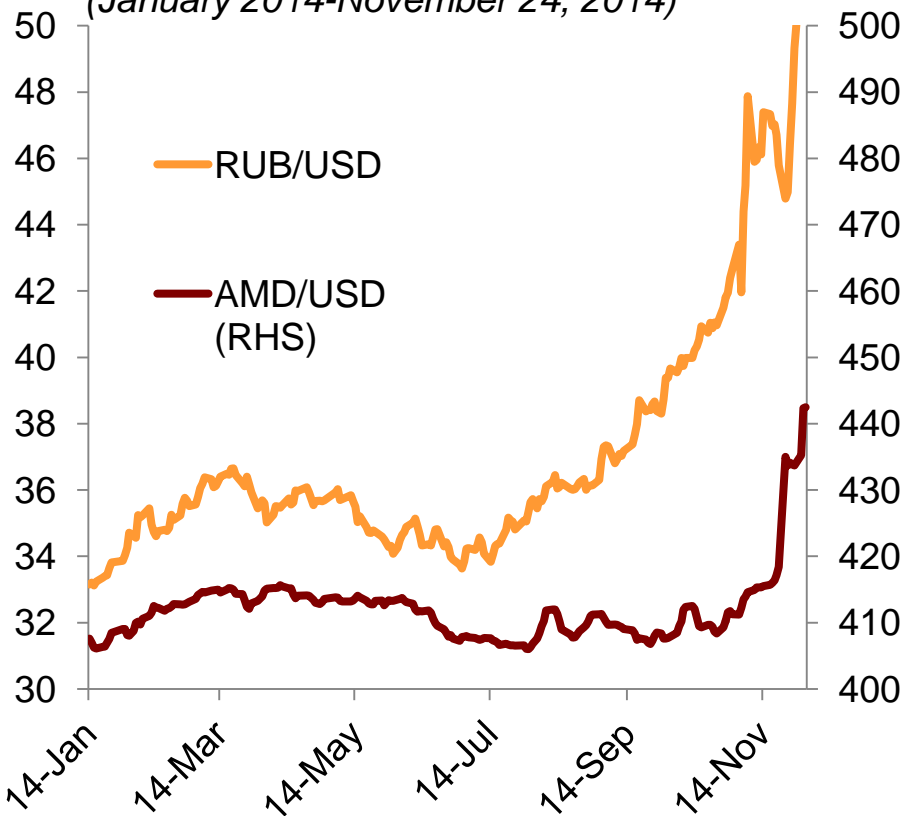
Growth in Armenia is highly correlated with Russia's growth



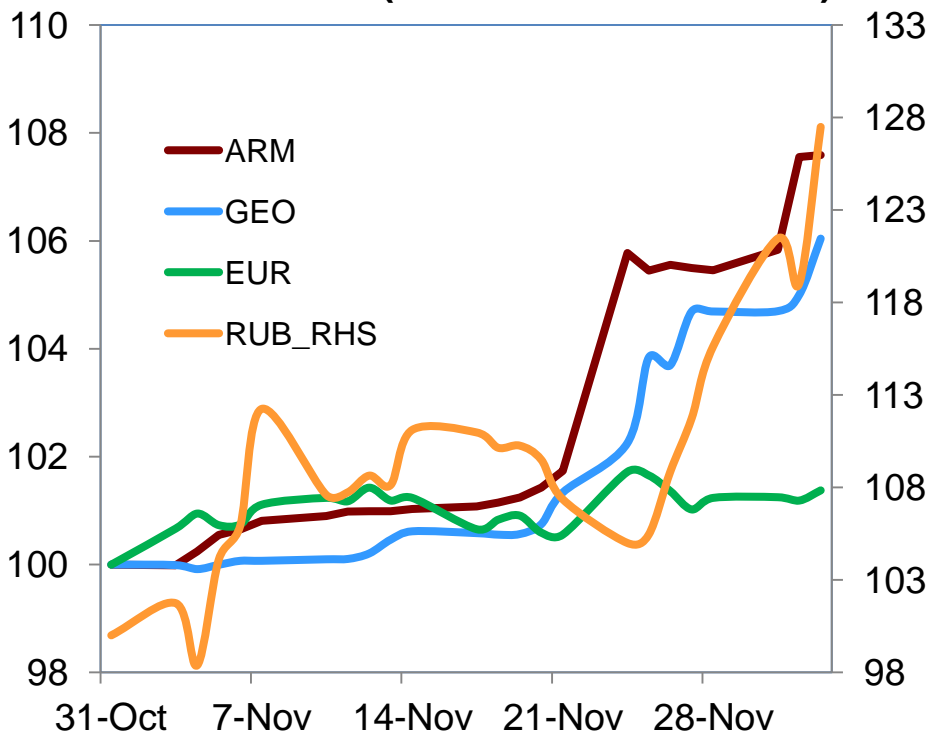
The Dram/US\$ exchange rate is depreciating, as in most emerging markets

RUB/USD and AMD/USD

(January 2014-November 24, 2014)



Exchange Rates in Selected Currencies (October 31 2014=100)



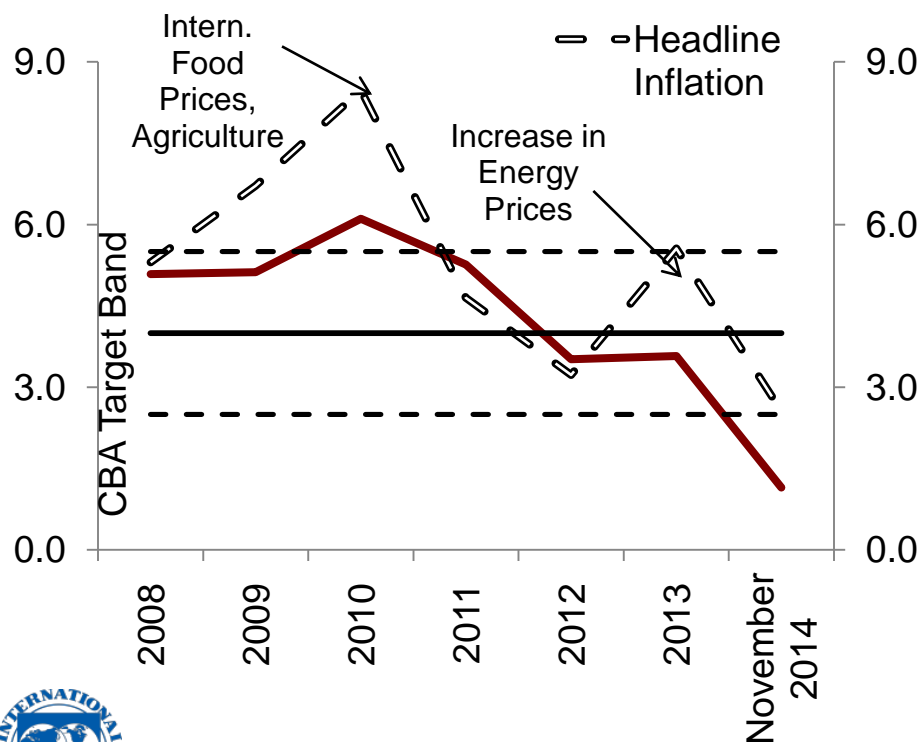
The effect of the depreciation on domestic prices should be manageable...

...because inflation at present is low...

...and the fiscal position sound, with room to support growth

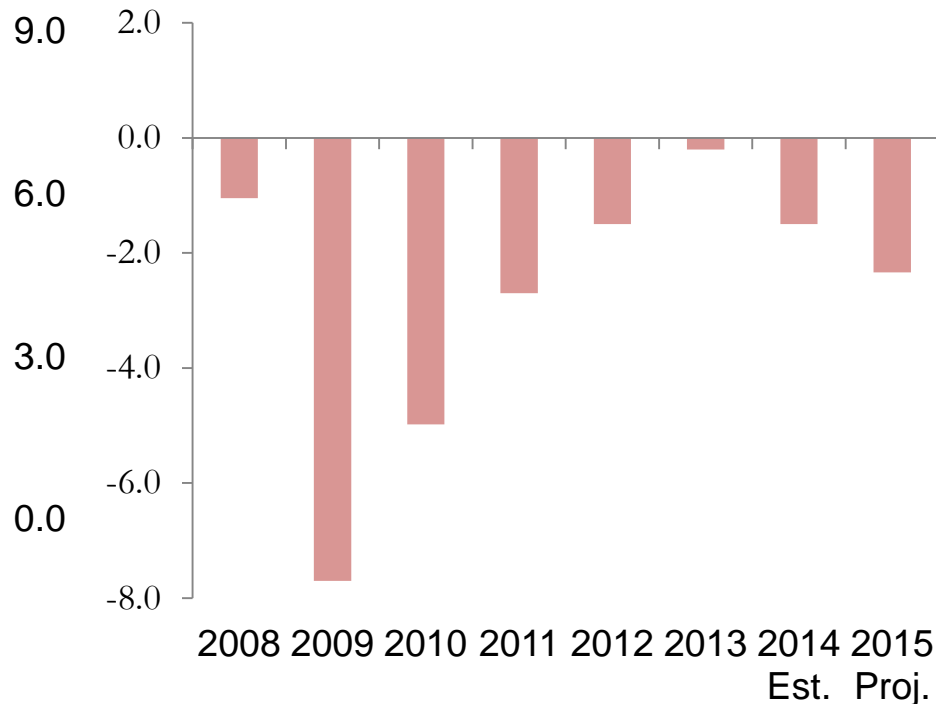
Consumer Price Inflation

(In 12 month percent changes) — Core Inflation



Performance of Budget Deficit

(In percent of GDP)



Est. Proj.

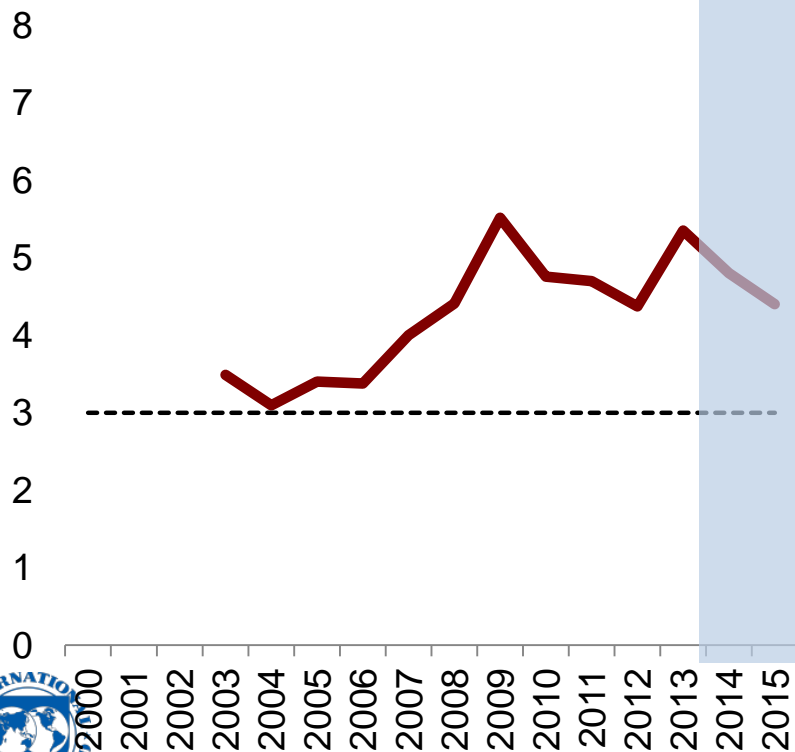


Buffers remain high to allow for an orderly price discovery...

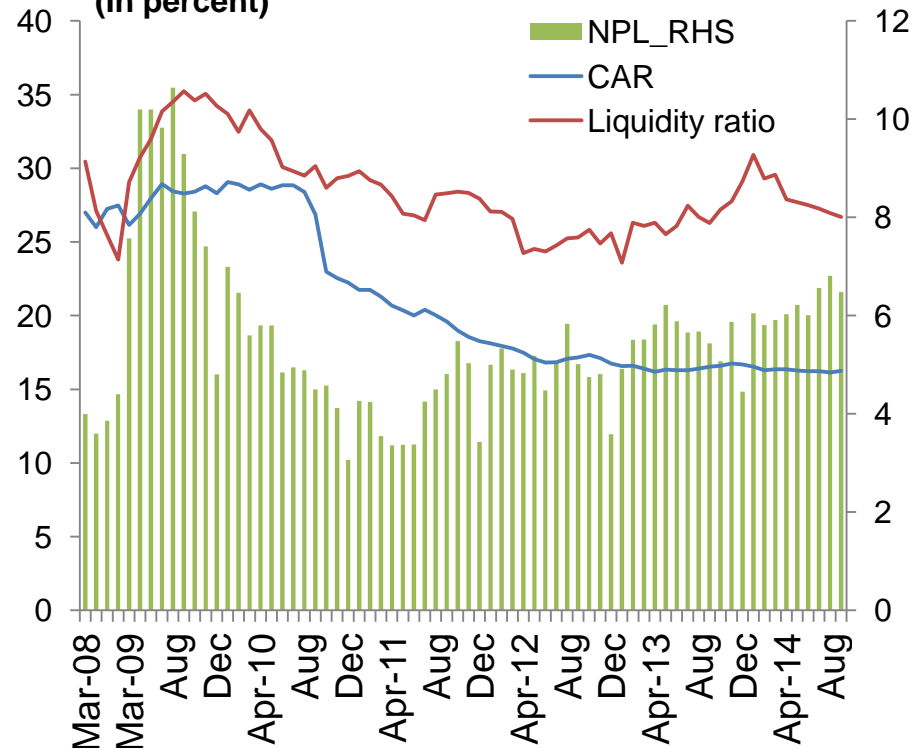
...because of the CBA's policy framework and level of reserves...

...and the strong capital and ample liquidity of the banking system

Armenia: Reserve Coverage
(Months of Imports)



Financial Soundness Indicators
(In percent)



What should Armenia do in response to the rising risks?

Maintaining economic and financial stability

Providing short-term support to the economy

Resuming the consolidation of buffers once conditions improve

Implementing comprehensive and ambitious structural reforms

Conclusions

- Global recovery remains fragile and commodity prices are declining. This is affecting negatively Russia, together with geopolitical tensions and investor concerns about medium-term growth prospects.
- As a result, Armenia is slowing down and exchange rate is depreciating, because of weak remittances and exports. The effects of the depreciation should be manageable, given current low inflation and sound fiscal position.
- Short-term policy priorities are maintaining economic and financial stability and, providing short-term support to economic growth.
- Growth could remain sluggish over the medium term, unless structural reforms are accelerated and implemented in a decisive manner.



Thank you!

