THE EFFECTIVENESS OF CURRENCY MARKET REGULATION IN ARMENIA IN THE CONTEXT OF EXTERNAL CHALLENGES

Karmen GRIGORYAN
Ph.D., lecturer at IER chair, Armenian State University of Economics
Tatevik ULIKHANYAN
Ph.D., lecturer at IER chair, Armenian State University of Economics

Introduction Today, almost all the countries of the world are struggling to restore the normal functioning of the currency markets, because the disruption of their functioning has a chain effect on the economy. The article analyzes the necessity and effectiveness of the instruments selected for the purpose of regulating the currency market implemented by the Central Bank of Armenia under external influences.

The importance of the currency policy of RA is justified on the one hand by the existence of the transmission mechanisms through which exchange rate changes affect macroeconomic indicators, economic activity and inflation, goods and capital flows, state budget revenues, money market, expectations of business entities, household incomes, purchasing power, therefore, on their standard of living and social condition. On the other hand, the exchange rate of the Armenian dram has become one of the main mechanisms for the transmission of external developments and shocks, because the economy of the Republic of Armenia, not having a comprehensively developed financial market that fully absorbs internal and external shocks, reacts to them with fluctuations in the exchange rate of the Armenian dram.

Methodology Considering that monetary policy is a complex and multifactorial category, the study would not be possible without the application of the scientific abstraction method to remove insignificant or secondary factors. Through the use of the deduction method, we have distinguished the analysis of the most primary factors, and after analyzing the information collected using the induction method, we have made generalizations specific to the given phenomenon, as a result of which we have reached certain conclusions. It is known that any phenomenon is a set of different components. During cognition, they are studied separately, the role and functions of each of them in social life are revealed, applying the method of analysis. Then, through the combination (synthesis) method, the studied phenomenon is observed in the internal relationship or unity of its various components, the properties already known to us.

In order to compare the close interdependence of the currency policy of RA with a number of macroeconomic indicators, as well as to highlight the current developments and problems, a statistical quantitative analysis was carried out, then qualitative assess-

ments and conclusions characterizing the situation were given, using comparative and graphical methods.

Literature review Having become familiar with the definition, participants, regulation and control of the currency market, analyzes of a number of advanced international structures, Armenian and foreign economists, forms of currency policy implemented for the purpose of currency market regulation were carried out [Andrianov, 2013, 57], articles on the evolution, types and classification, as well as the features of its implementation in different countries, the interaction of the exchange rate and economic indicators [Mkhitaryan, et al., 2016, 96], in-depth analysis of works and studies, laws and legislative acts.

We come across the point of view that the currency exchange rate can undergo changes under the influence of both fundamental and technical factors [Tholoor Thomas, 2013, 8]. The fundamental group includes economic, political and market factors, the technical group includes the many existing technical instruments, through which the trend of the exchange rate change is predicted.

Academic approaches of J. Madura [Jeff Madura, 2021, 112], A. Kireev [Kireev, 2001, 120], V. Artamonova [Artamonova, Ivanova, 282-283], A. Evdokimov [Evdokimov, 2003, 302-305], M. Tholoor [Tholoor, 2013, 8], H. Menkiw and M. Taylor [Mankiw & Taylor, 2013, 321], O. Blanchard [Blanchard, 2003, 403-404], P. Krugman, M. Obstfeld and M. Melitz [Krugman, et al., 2012, 320-324], N. Patel and P. Cavallino [Patel & Cavallino, 2019, 26-29], G. Nazaryan, [Nazaryan, et al., 2012, 293-299], T. Sargsyan [Sargsyan, 2008, 9], H. Avetisyan [Avetisyan, 2010, 31] were studied and analyzed. Among the forms of monetary policy, discount and foreign exchange monetary policies are distinguished. The discount (calculation or discount) monetary policy is the change of the refinancing rate of the Central Bank, it is aimed at the regulation of the exchange rate and the balance of payments, on the one hand, the international movement of capital, and on the other hand, the dynamics of domestic lending, money supply, price level, as well as affecting aggregate supply. Foreign exchange policy is a unique method of influencing the exchange rate of the national currency, the varieties of which are: currency invasions (interventions), diversification of currency reserves, application of currency restrictions, regulation of the degree of currency convertibility, regulation of the exchange rate regime, revaluation and devaluation.

Thus, it is important to note that the regulated operation of the currency market of any country is closely related to the development and implementation of an effective currency policy. In this context, the choice of the types of currency policy implemented by the Central Bank of Armenia and the systematic and timely application of tools are emphasized.

Analysis Studying the currency policy experience of a number of countries, we notice that for the purpose of ensuring currency stability, interventions are always carried out in the currency market. Experience shows that many countries that have adopted a free-floating currency policy (Armenia, Israel, New Zealand, Brazil, Chile, Colombia, Peru, etc.) at a certain stage have implemented, for example, interventions to mitigate exchange rate shocks. In most of the countries, there are noticeable trends of a sharp decrease in reserves, which is mainly due to the implementation of interventions. However, studying the effectiveness of the interventions, we notice that they mostly had a short-term impact on the exchange rate.

Studying the practice of interventions in Armenia, we came to the conclusion that the Central Bank of Armenia has from time to time resorted to the use of this instrument of monetary policy in order to mitigate sharp fluctuations in the exchange rate. Studying the operations carried out by the Central Bank of Armenia in the currency market in 2008-2022, we notice that the largest volume of sales was recorded in 2009, and the largest volume of purchases was recorded in 2022[1]. In 2019 and 2022, the Central Bank of Armenia regulated the overvaluation of the dram, which greatly harmed especially local producers and exporters.
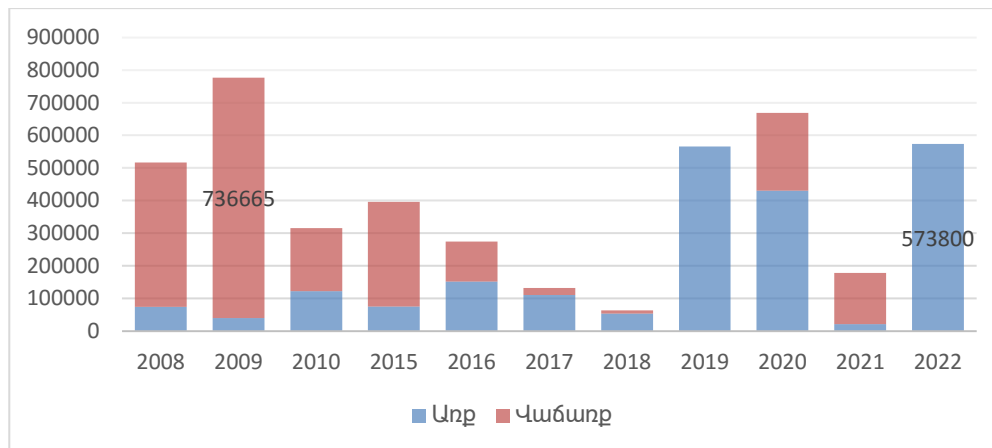

Figure 1. Operations carried out by the Central Bank of Armenia in the currency market in 2008-2022 (thousands of US dollars)[2]

As it is known, in recent years in most countries of the world, a high level of inflation has been observed, which has a negative chain effect in terms of ensuring many

---

[1] HH KB pashtonakan kayq «Vitwakagrowt'yown» bajhni, «Artaqin hatvac'i vitwakagrowt'yown» ent'abajhin:
https://www.cba.am/am/SitePages/statexternalsector.aspx
[2] Hergnyan S. Hayastani mijazgayin pahowstnery' 11 amsowm 8.9%-ov atwel en
https://hetq.am/hy/article/151021

macroeconomic indicators. From 2021 to June 2023 the rate of inflation in RA continued to accelerate. There are many reasons for this, starting with the Russian-Ukrainian conflict and ending with the global changes taking place in the world, when inflation has become a global phenomenon.

In order to regulate the currency market and curb inflation, central banks use long-term instruments, for example, raising the refinancing rate, which, of course, curbs economic growth to some extent. However, this tool used in time is a serious tool for long-term regulation. It was due to the efforts of the Central Bank of Armenia, that the right and quick decision was made to choose the form of monetary policy, since the beginning of 2022, it has raised the refinancing rate 6 times, setting it at 10.75%, with inflation at the target rate (+/-4.0% in order to reach 1.5 percentage points in the permissible range of fluctuations). In fact, in the last one - two years, the inflow of visi-tors' capital (in 2022, the transfers received by individuals from abroad through the RA banking system is the highest indicator recorded since 2004), the inflow of labor force, and the increase in wages created pressure on the consumer market, significantly increased the demand, did not allow to achieve the target rate of inflation, however, the continuous increase of the refinancing rate significantly curbed inflation, unlike many other countries that started applying this policy prematurely, recorded a decrease in economic activity, not achieving enough inflation control in their countries.

In order to stimulate economic activity, in 2023, for the second time, the Central Bank lowered the refinancing rate by 0.25% percentage point, setting it at 10.25%. This was made possible by the decrease in the prices of some types of food (bakery, cereals, meat, fish and fish products, oils and fats, sugar, eggs, dairy products and cheese, fruits and vegetables) in the summer months, although tobacco, water and mineral water, non-food products, excessive growth of aggregate demand for alcoholic beverages, some services has led to their price increase.

Compared to July of the previous year, among EAEU countries, only Armenia achieved a 0.5% drop in consumer prices. The CPI increased by 3.3 percent in Russia, 2.9 percent in Belarus, 10.5 percent in Kyrgyzstan, and 14.6 percent in Kazakhstan.

At this stage, inflationary pressures on Armenia from international commodity exchanges are not observed, while global financial centers such as American and European central banks continue to raise refinancing rates due to inflationary pressures.

Among the current external challenges, the sharp decrease in the level of reserves in the countries, which aims to ensure stability in the currency market, is also highlighted. Is there a similar situation in Armenia as well? We studied the structure and dynamics of the gross international reserves of RA in 2005-2022.
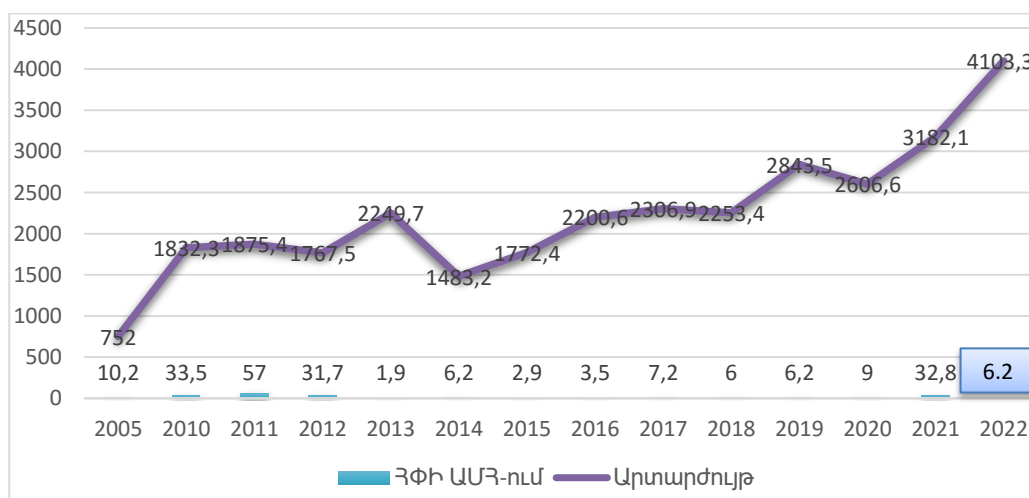
Figure 2. The structure of RA's gross international reserves

in 2005-2022 (million USD) [18]

As can be noticed, while many developed countries implement their regulatory monetary policy at the expense of reserves, the gross international reserves of RA have increased dramatically over the last two years. During the year 2022 international reserves of RA increased by 288 million dollars or 8.9%, with the highest level recorded in September, after which it started to decrease[1]. Since the raising of public debt and debt servicing directly affect the change in international reserves, we also studied the dynamics of public debt.

As of February 2023, the RA state debt was 10 billion 751 million dollars, and in May it exceeded 11 billion dollars. The debt structure has also changed significantly. In February 2022, the weight of foreign debt in the total debt of the Government was 69.8%, now it has decreased to 57%, instead, the weight of domestic debt has reached 43% from February 30, 2022 to the same month of this year[2]. Although this leads to a decrease in foreign currency risks, the burden of interest payments in the budget will exceed 270 billion drams in 2023 instead of 200 billion drams, which is due to the more expensive domestic debt. The positive thing is that a larger part of that money will remain in the republic, increasing the average income indicator and the standard of living.

Certain risks have increased in terms of debt manageability: as a result of the rating increase, the interest rate of the external debt has increased, and the maturity has been shortened. Compared to the previous year, the cost of servicing the debt increased

---

[1] HH VK, Hraparakowmner, Hayastani Hanrapetowt'yan social-tntesakan vitwaky' 2022t'. hownvar-dektemberin, https://armstat.am/file/article/sv_12_22a_411.pdf
[2] http://surl.li/jxuzz

by about 2% (about 180-200 million dollars), and this burden would be much more tangible if the dram did not appreciate. Expressed in dollars in February, 2023 compared to February of the previous year, the debt increased by 15.3%, and due to the sharp devaluation of the dram, the debt expressed in dram decreased by 7%.
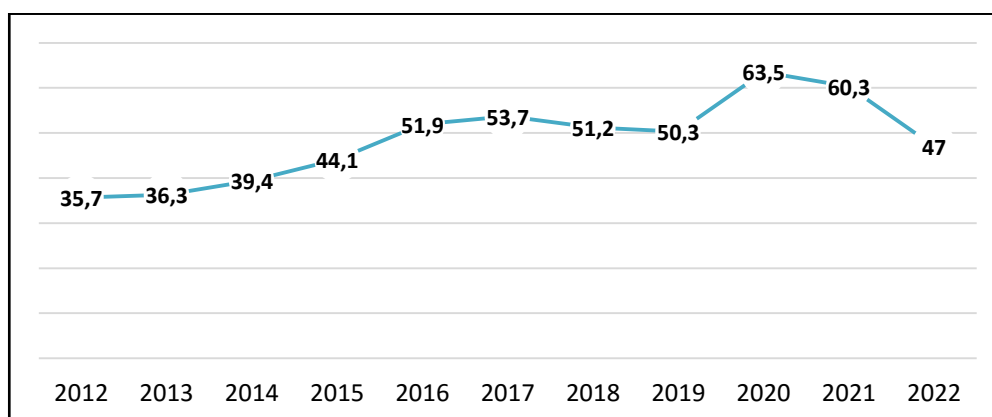

Figure 3. Debt/GDP ratio dynamics 2012-2022, in percentages

In 2021, the government planned to bring the debt/GDP ratio below 60% by 2022. As a result, it was about 47%. The reason was also the sharp increase of the GDP index. In 2022 it had reached 8,496,777.9 million drams. Although this number decreases when it neutralize the effect of the price increase in one year, 7,865,923.1 million drams, calculated by the average annual prices of the previous year, still, the volume of GDP in 2022 was 112.6% compared to 2021, 119.1% in 2020.

Regarding the amount of foreign currency in the domestic market and the continuous inflow due to various external reasons, the analysis makes it clear that they largely determine the appreciation of the national currency (the dram appreciated by more than 18% at the end of the year compared to the beginning of 2022), in connection with this the increase in the price of national products and the decrease in competitiveness in the world market, and as a result, the reduction of export volumes, when we separate the volume of re-exports in exports by individual products.

This does not exclude the observed increase in the volume of foreign trade turnover of RA in 2022 compared to 2021. in comparison, exports and imports increased by almost four and a half percent[1]. If there was no tangible increase in the volume of industrial products in the economy, moreover, rates of decline are noticeable (in January 2023, compared to January 2022, the entire industry recorded a 1.4% increase, that is, it

---

[1] https://armstat.am/file/article/sv_01_23a_121.pdf

showed decreasing trends[1], therefore, the increase in foreign trade turnover is conditional and affected by external factors. As a result of the study of the geographical structure of foreign trade turnover (in January-December 2022, compared to the same period of the previous year, exports to the Russian Federation increased by 45%, exceeding the previous year's indicator almost twice, and to the European Union, it increased by 14.4% registering a decrease of almost 1.5 times compared to the previous year, it became clear that such an unprecedented increase in export volumes is due to re-export transactions.

Conclusion As a result of the analysis, we come to the conclusion that although the rates of economic growth recorded in 2022 could not remain the same and already in May 2023 they showed a downward trend, the Central Bank of Armenia continues to fulfill its main function in the direction of ensuring the target level of inflation and financial stability in the environment of such serious external influences and the instability of the world economy. We also positively evaluate the steps to reduce the refinancing rate, but we believe that reducing it by 0.5% will not have enough impact in terms of stimulating economic growth and it will be necessary to contribute to the revitalization of local production and the real sector by using additional stimulating tools.

References
1. Tholoor M. Thomas, Inside Foreign Exchange Universe, CFA, 2013, page 8:
2. Jeff Madura, International Financial Managmentt, 8th Edition, page 112
3. Tholoor M. Thomas, Inside Foreign Exchange Universe, CFA, 2013, page 8
4. Mjenk'ju N., Tejlor M. Makrojekonomika. 2–e izd.- SPb.: Piter,2013, str.321
5. Mkhitaryan L.K., Poghosyan V., The study of main factors affecting the real effective exchange rate in RA through econometric model, Rossijsko-kitajskij nauchnyj zhurnal <<Sodruzhestvo>> Ezhemesjachyj nauchyj zhurnal No 4 (4), 2016, str. 69
6. Andrianov V. Funkcional'naja jekonomicheskaja sistema, regulirujushhaja uroven' infljacii // Marketing. - 2013., str. 57
7. Kireev A, "Mezhdunarodnaja jekonomika", Ch-2, Moskva, 2001g., str. 120:
8. Artamonova VS, Ivanova S. A,Makrojekonomika, Uchebnik dlja buzov, Uzdatel'skij dom "Piter" 2009, ct. 282-283,:
9. Evdokimov A. I. i dr. Uchebnik "Mezhdunarodnye jekonomicheskie otnoshenija", M.:TK Velbi, 2003. -552s, str. 302-305:Blanchard Olivier. Macroeconomics. Third Edition. Pearson Education Inc., Prentice Hall, 2003.стр. 403-404
10. Krugman P., Obstfefld M., Melitz M. " International Economics" theory and policy, 2012, p. 320-324
11. Nikhil Patel, Paolo Cavallino, FX intervention: goals, strategies and tactics, 2019 December, page 26-29. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3497860
12. Nazaryan G, Mijazgayin tntesakan haraberowt'yownner: Owsowmnakan d'er'nark erkow masov, mas ‖, 2012t'., e'j 293-299

---

[1] https://armstat.am/file/article/sv_12_22a_411.pdf

13. Sargsyan T., «P'oxarjheqi dery' dramavarkayin qaghaqakanowt'yan mej», Er&an 2008t'. E'j 9,
http://ijevanlib.ysu.am/poxarjeqi_dery_dramavarkayin_qaxaqakanutyan_mej/
14. Avetisyan H., «Arjhowyt'i p'oxarjheqi d'&avorman ar'and'nahatkowt'yownnery' zargacogh erkrnerowm/HH o'rinakov/», Er&an 2010t'., e'j 31
15. HH KB arjhowt'ayin qaghaqakanowt'yan veraberyal haytararowt'yown:
https://www.cba.am/Storage/AM/downloads/karger/Arjutayinhaitarar.pdf
16. HH KB pashtonakan kayq «Vitwakagrowt'yown» bajhni, «Artaqin hatvac'i vitwakagrowt'yown» ent'abajhin:
https://www.cba.am/am/SitePages/statexternalsector.aspx
17. Hergnyan S. Hayastani mijazgayin pahowstnery' 11 amsowm 8.9%-ov atwel en
https://hetq.am/hy/article/151021
18. HH petakan partqy' HNA-i hamemat nvazel e՟ kazmelov 47 tokos,
http://surl.li/jxuzz
19. HH VK, Hraparakowmner, Hayastani Hanrapetowt'yan social-tntesakan vitwaky' 2022t'. hownvar-dektemberin,
https://armstat.am/file/article/sv_12_22a_411.pdf

Karmen GRIGORYAN, Tatevik ULIKHANYAN
The effectiveness of currency market regulation in Armenia in the context of external challenges

In the contemporary context of globalization, the intricate execution of monetary policy is significantly influenced by the ongoing developments within the global economy. In the current wave of developments, the global economic market has undergone structural changes due to the negative consequences of COVID-19, the Russian-Ukrainian conflict, disruptions caused by regional instabilities, and shifts that have impacted the natural progression of global economies. These changes have significantly influenced the fundamental trajectory of economic growth across countries. Despite its own domestic challenges, the Republic of Armenia, is unable to remain immune to these multifaceted alterations. Moreover, internal issues further exacerbate the situation. Consequently, the imperative for astute economic governance has grown even more pronounced. Through a comprehensive analysis of international experience in the implementation of monetary policy, shocks in the global foreign exchange market, the authors sought to fully understand and endorse the current problems facing the Republic of Armenia economy in the context of the development of the Republic of Armenia foreign exchange market. The objective was to explore various forms of applied monetary policy, external influences, economic indicators of Armenia, the structure and dynamics of debt and foreign exchange reserves, inflation levels, reasons for the appreciation of the dram currency against foreign currencies, foreign trade turnover, and substantiate the effectiveness of the ongoing currency policy in our country.