

THE RISK ASSESSMENT OF ARMENIAN EXCHANGE RATE

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There are around 66 countries that either peg their currency to the dollar or use the dollar as their own legal tender. The dollar is so popular because it's the world's reserve currency (LoveJames, 1986). World leaders gave it that status at the 1944 Bretton Woods Agreement (JamesHarold, 1996). The second major exchange which is chosen as a peg or legal trend is Euro. The eurozone members use it as their currency (Berka, Martin, Michael B. Devereux and Charles Engel, 2012). In 1945, Switzerland joined the Bretton Woods system and pegged the franc (CHF) to the US dollar.

AED	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SAR	0.01	0.00	0.00	0.02	0.05	0.02	0.01	0.02	0.01
HKD	0.13	0.07	0.05	0.05	0.04	0.15	0.29	0.16	0.06
AMD	1.79	2.52	1.20	3.65	0.78	1.18	0.62	0.45	0.67
CHF	6.05	2.43	2.11	3.60	3.37	1.87	1.85	2.23	0.97
CNY	1.35	0.73	0.83	0.97	1.41	2.03	1.94	3.91	1.13
JPY	3.12	2.60	3.94	5.56	1.66	5.35	1.59	2.10	1.09
CAD	2.60	1.49	1.95	2.12	4.04	3.06	3.17	2.18	0.79
EUR	3.40	2.58	1.98	4.16	2.59	2.32	4.59	3.08	0.82
KGS	2.21	0.79	1.13	4.74	7.89	4.13	0.90	0.90	0.13
AUD	3.21	2.25	5.75	4.07	4.40	2.94	2.36	3.74	1.35
BYN	42.07	2.05	3.09	5.13	9.35	3.74	2.39	3.25	1.41
MXN	6.56	2.98	2.55	3.34	5.14	5.09	5.54	3.57	1.10
GEL	2.81	0.85	1.23	2.26	5.98	5.75	4.48	3.93	1.47
RUB	4.93	3.70	3.21	16.86	9.93	7.36	2.02	6.58	1.55
KZT	0.66	0.72	0.88	4.84	23.35	3.17	2.90	5.88	0.61
	2011	2012	2013	2014	2015	2016	2017	2018	2019

Figure 1. The Exchange Rate Coefficient of Variation to USD of chosen countries

The Armenian currency (AMD) on the other hand, being one of the currencies of EAEU countries, shows little yearly variation to USD. Officially Central Bank of Armenia declares dram as a freely floating exchange rate. But the data shows the contrary. Armenian dram's yearly coefficient of variation is more stable than the currencies of Switzerland (CHF) and China (CNY), which are officially pegged to USD; and it is more stable than the currencies of Canada, Japan and Eurozone which have grate economic ties and trade with USA. The behavior of Armenia's currency exchange rate to USD is more in line with currencies of Hong Kong and United Arab Emirates, which have accented and strong pegged exchange rates to USD. As seen in the Figure 1 Historically Armenian dram showed unchanged behavior compared to USD. De facto Armenian dram shows the behavior of a currency that is pegged to USD.

From 2012 till the end of 2014 Armenian dram was fixed in the region of 410 USD/AMD. In 2014 the Armenian FX reserves strongly declined to accommodate the regional economic shocks, which were caused by the significant drop in global oil prices and consequently

depreciation of Russian ruble. In this situation of great economic uncertainty and volatility Armenian dram remained unchanged till the end of 2014 when the economy wasn't able to withstand, causing the "spring effect" to take place, collapsing the AMD. The AMD like a recoiled spring depreciated from around 410 up to 560 USD/AMD in couple of hours. This caused panic in the Armenian market, further damaging it. After few days the stress settled and exchange rate settled to around 480 USD/AMD. From the beginning of 2015 till now, after 4.5 years it remains relatively unchanged.

Armenia doesn't have strong economic ties with the USA. It Doesn't have permanent economic ties with China as well. During 2019 the exports of Armenia to USA were on 14th place, with 2.0% from overall, and to China on the 4th place, with 7.3% from overall. Armenia doesn't have oil and is not an oil exporter. It mainly trades with Russia, EU and the Middle East. The bulk of finished goods of Armenia are exported to Russia. 27.8% of overall exports of Armenia in 2019 went to Russia, and this indicator doubled in 4 years after Armenia become a member of EAEU in 2015. In 2019 22.3% of Armenia's exports went to the EU and 15.0% to the Measle East. So, it is more sensible for the prosperity of Armenian economy to have real floating exchange rate, which fluctuates in accordance to Euro and Russian ruble.

Besides keeping AMD de facto pegged to USD in case of instability is fraught with the "spring effect" with sudden and tangible depreciation of AMD, with lasting negative effects. USD/AMD exchange rate is around 480 drams over 4.5 years and more it stays unchanged the greater is the sudden possibility of change. The stable USD/AMD exchange rate can be linked to the percentage of dollarization ratio of deposits, included in broad money in Armenia is 51% by April of 2019 and has a declining trend, this is due to the stability in the Armenian market.

References

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