
Armenia growing by 10 per cent per year.

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Assigned a Ba2 rating

Armenia has been experiencing real GDP growth rates of around 10% per annum or above since 2001, while inflationary pressure have remained subdued due to the appreciation of the dram (the local currency) and to a cautious monetary and fiscal policy stance.

This led Moody's Investors Service to assign on Monday a Ba2 foreign and domestic currency ratings to the government of Armenia.

The rating was given in light of the progress made by the country since 1995, the year that marked the end of the seven-year contraction that followed the collapse of the Soviet Union.

"We believe that, over the medium term, there is sufficient scope for further GDP growth such that it will help alleviate poverty and reduce unemployment, both of which remain high in Armenia," said Moody's Vice President Sara Bertin.

"Moreover, the rating is supported by the limited level and favorable maturity structure of Armenia's foreign-currency denominated debt."

She said that with a 23% debt-to GDP ratio at the end of 2005, the country compares well to its peers. Ninety percent of the debt is owed to multilateral lenders on concessional terms representing a long maturity and associated minimal debt-servicing cost.

"We have also taken note of the high level of dollarization and the country's lack of financial depth," said Bertin.

Capped by geopolitical factors

Moody's rating is capped by geopolitical factors, said the analyst. Though the worst fighting over the territory of Nagorno Karabakh ended in 1993, the conflict remains stalemated, with the leaders of the Armenian-inhabited enclave claiming an independent status that no other state has recognized.

"Moody's assigns a very low probability that the conflict between Azeris and Armenians might resume over the short to medium term," said Bertin. "As long as a credible and sustainable solution has yet to be found, uncertainties remain over the countries of the South Caucasus. Due to their borders with Iran, countries such as Armenia and Azerbidjan are potential strategic partners for the United States, Russia and Iran."

The foreign currency country ceiling for bonds and notes is Baa3, which takes into account Moody's recent change in rating methodology, that incorporates reduced moratorium risk and sometimes distinguishes significantly between the foreign currency country ceilings and government foreign currency issuer rating. The country ceiling for foreign currency bank deposits is Ba3. The local currency guideline, the highest possible rating that could be assigned to obligors and obligations denominated in local currency within the country, and the local currency bank deposit ceiling are at A3 and Baal respectively. All ratings carry a stable outlook.
