

The Impact of the Russian-Ukrainian War on the Currency Market of RA and the Main Problems of its Development

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Ռուս-ուկրաինական պատերազմի ազդեցությունը ՀՀ արժույթային շուկայի վրա և վերջինս զարգացման հիմնախնդիրները

Գևորգյան Գայանե Վ.

Հայաստանի պետական տնտեսագիտական համալսարանի

Ֆինանսների սանիտիկայի ասպիրանտ (Երևան, ՀՀ)

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Ամփոփագիր. Անցած 2022 թվականը ֆինանսական համակարգում նշանավորվեց դրամի շարունակական արժևորմամբ, ինչը ուղղակիորեն կախված էր ռուս-ուկրաինական պատերազմի արդյունքում Ռուսաստանի քաղաքացիների մեծ ներհոսքով, ինչն էլ իր հերթին հանգեցրեց արտարժույթի զուտ ներհոսքի մոտ վեց անգամ աճի մեկ տարվա ընթացքում: Արդյունքում Հայաստանում սկսեց արագ տեմպերով աճել արտարժույթով սփոթ գործարքների օրական ծավալը: Արտարժույթի նման զանգվածային առաջարկի պայմաններում դրամը սկսեց արժևորվել դոլարի նկատմամբ՝ 2023 թվականի մարտին արդեն հասնելով 388.41 ՀՀ դրամ մեկ դոլարի դիմաց արժեքին: Ստեղծված իրավիճակից առավելագույնս օգտվեցին բանկերը, մեկ տարում մոտ չորս անգամ ավելացավ ազգային բանկային համակարգի շահույթի մակարդակը, որի ավելի քան երեսուն տոկոսը, իսկ առանձին բանկերի պարագայում անգամ ավելին քան կեսը հենց արտարժույթային գործառնությունների արդյունք էր: Փոխարժեքի նման տատանումը, իհարկե, իր դրական ազդեցությունն ունեցավ տնտեսության վրա, մասնավորապես սկսեցին իջնել ներմուծված ապրանքների արժեքները: Սակայն տնտեսության մի ստվար հատվածի համար, ինչպիսիք էին օրինակ արտահանող ընկերությունները, կամ օտարերկրյա ակտիվներում ներդրումներ կատարած կենսաթոշակային և ներդրումային ֆոնդերը, այն հանգեցրեց եկամտի՝ դրամական արտահայտությամբ նվազմանը, ինչն էլ առաջ բերեց ազգային ֆինանսական համակարգում ածանցյալ արժեթղթերի շուկայի, ի դեմս արտարժույթային ֆյուչսների, ներդրման և զարգացման կարևորությունը: Արժույթային շուկայի զարգացման մյուս կարևոր քայլը արդյունավետ գործունեություն ծավալող արտարժույթային բորսայական հարթակի ներդրումն է:

Հանգուցաբառեր՝ Արժույթային շուկա, արտարժույթի ներհոսք, ռուս-ուկրաինական պատերազմ, գործառնական եկամուտ, արտարժույթի սփոթ շրջանառություն, արտարժույթային ֆյուչսներ, ածանցյալ արժեթղթեր, առևտրային հարթակ

Влияние русско-украинской войны на валютный рынок ра и основные проблемы его развития

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Аннотация. За последний год курс доллар на драмы падал из-за большого наплыва российских граждан в связи с российско-украинской войной. Война привела к значительному увеличению чистого притока иностранной валюты в Армению, что привело к подорожанию драма по отношению к доллару и привело к быстрому росту ежедневных сделок по валютному рынку. Национальная банковская система получила значительную выгоду от такой ситуации: прибыль от операций выросла в четыре раза за год, и более тридцати процентов прибыли было получено от операций по обмену валюты. Хотя такая волатильность обменного курса оказала положительное влияние на экономику, некоторые секторы, такие как экспортные компании и пенсионные и инвестиционные фонды, инвестирующие в иностранные активы, столкнулись с уменьшением доходов. Это привело к необходимости развития производных финансовых инструментов, таких как фьючерсы на валюту в

национальной финансовой системе. Введение эффективной валютной биржи также рассматривается как важный шаг в развитии валютного рынка.

Ключевые слова: Валютный рынок, приток иностранной валюты, российско-украинская война, операционная прибыль, валютный спот-оборот, валютные фьючерсы, деривативы, торговая площадка

Article: 2022 was indeed a significant year for the foreign exchange market in Armenia. Starting from mid-2021, when the inflation rate in the United States surpassed 5 percent, the Armenian dram started to gradually strengthen against the US dollar. This is because when inflation rises in any economy, it typically leads to the devaluation of that country's currency against other currencies.

The exchange rate of the US dollar against the Armenian dram had been experiencing rapid growth since the end of 2020, primarily due to the war initiated by Azerbaijan and subsequent political

instability in the region. However, in March 2021, the exchange rate began to decline and eventually reached its lowest point in the second half of 2021, stabilizing at around 477-480 drams per US dollar. This level was considered normal and consistent with the exchange rate observed in the previous few years (Figure 1)

It seems that the stabilization of the exchange rate in the second half of 2021 carried over into 2022, making it a breakthrough year for the Armenian foreign exchange market.

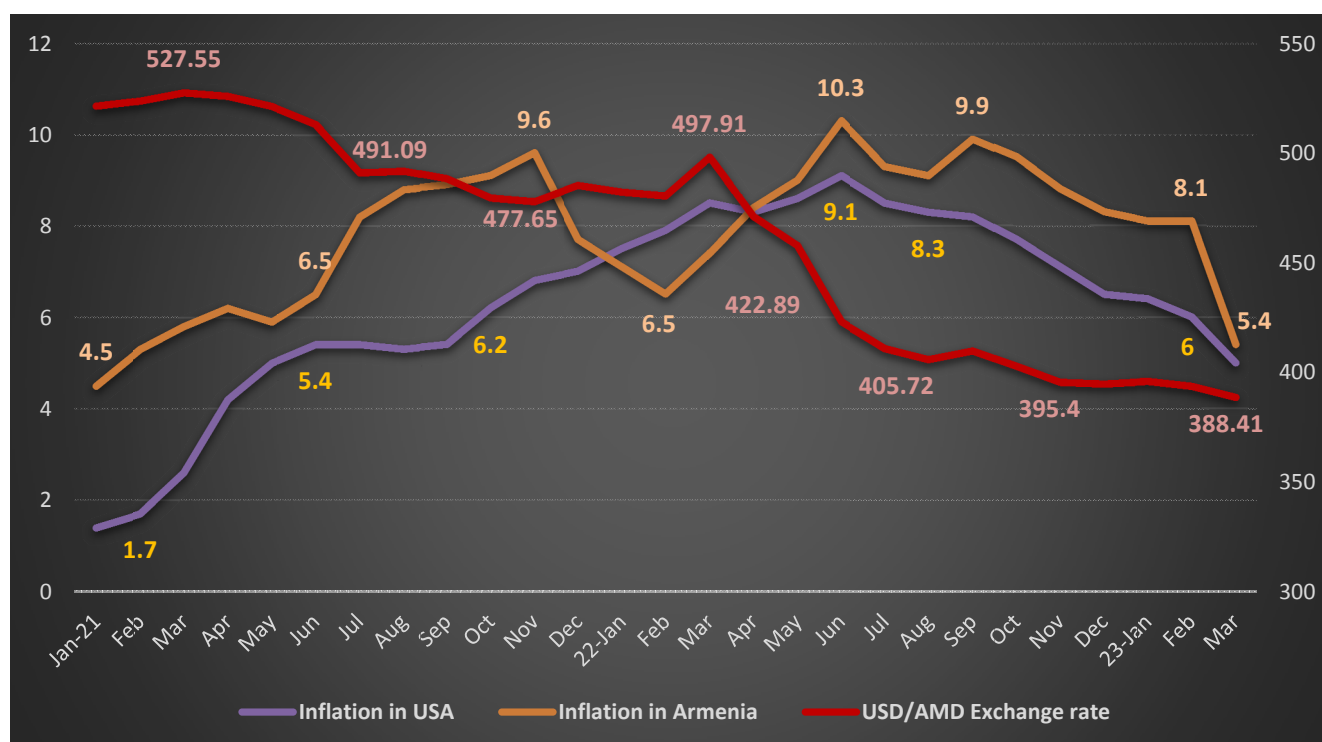


Figure 1: USD/AMD Exchange rate, Inflation level in USA and Armenia during 2021-2023 monthly [1]

In February 2022, the Russian-Ukrainian war broke out, and this event had a significant impact on the foreign exchange market in Armenia. The war led to a large influx of foreign currency into Armenia, primarily due to the movement and settlement of Russian citizens who were fleeing the conflict.

This influx of foreign currency had a notable effect on the financial system of Armenia, particularly on the foreign exchange rate. Figure 2 illustrates this impact. In March 2020, there is a sharp increase in foreign exchange inflow, resulting in the net foreign exchange inflow reaching its highest level for the year at around 368 million drams. In the subsequent months, despite some

fluctuations, the level of funds received from abroad remained relatively stable.

By February 2023, compared to January of the previous year, the net inflow of foreign funds had increased nearly six times. It rose from 56.1 million drams in January 2022 to 332.13 million drams in February 2023. This substantial increase indicates the significant influence of the Russian-Ukrainian war on the foreign currency inflow to Armenia during this period. It's worth noting that the influx of foreign currency can have various effects on the foreign exchange market and the overall economy of a country. While it can potentially strengthen the local currency, it may also lead to other economic consequences, such as changes in inflation rates or trade balances.

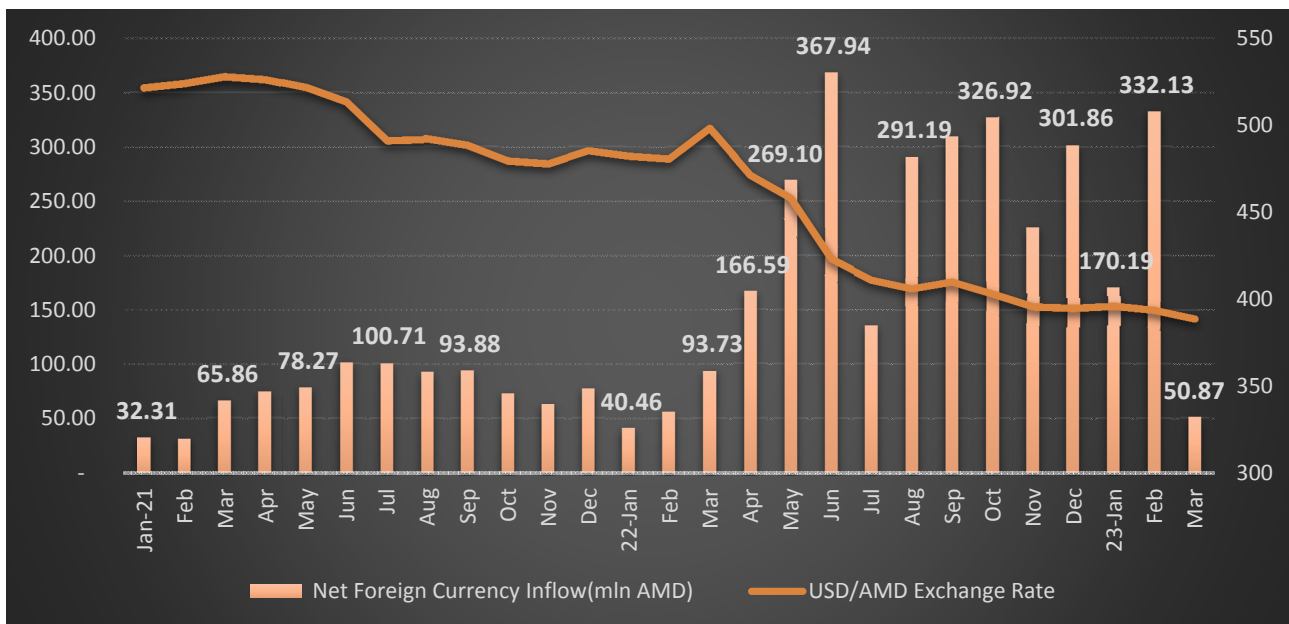


Figure 2: USD/AMD Exchange Rate Net Foreign Currency Inflow(mIn AMD) in Armenia during 2021-2023 monthly[2]

In 2022, the volume of individual money transfers from abroad to the Republic of Armenia reached the highest level since 2004, increasing by 5.2 times compared to the amount recorded in 2013, which was 2.3 billion drams. In the current situation, a significant portion, approximately 69%, of these funds originated from the Russian Federation (Figure 3).

The situation described had a significant impact on the exchange rate of the US dollar against the Armenian dram, resulting in a sharp appreciation of

the dram. Despite the decline in the US inflation rate in 2022, the dram continued to strengthen against the dollar, as depicted in Figure 1.

Regarding inflation in Armenia, Figure 1 indicates a negative correlation with the USD/AMD exchange rate. As an importing country, the devaluation of the dollar naturally has a positive effect on prices, leading to a decline in the price level. However, it is worth noting that moving prices downward is often more challenging compared to upward movements.

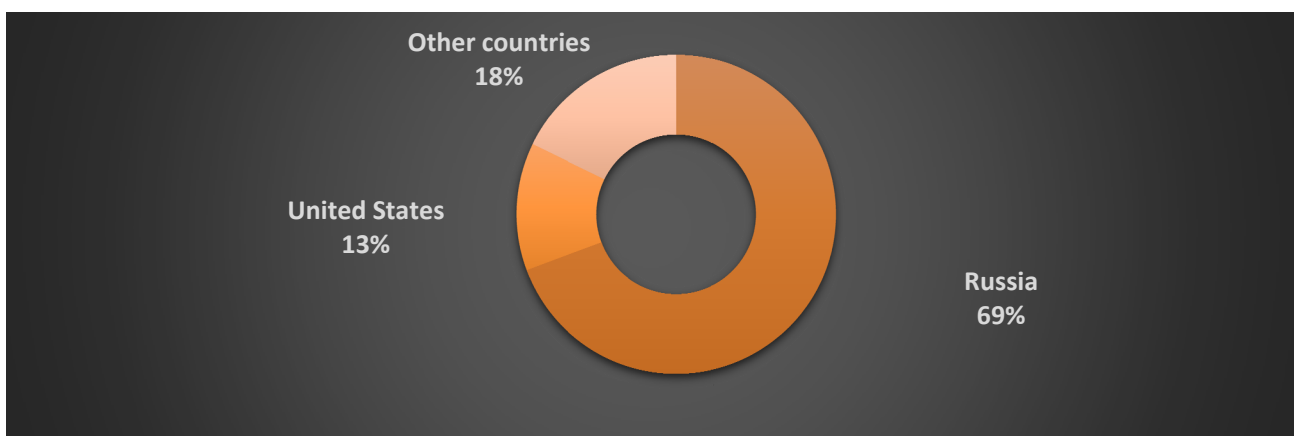


Figure 3: Structure of foreign transfers by county as of the end of 2022 [2]

The inflow of foreign currency resulted in an increase in the average daily volume of spot transactions in foreign currency in Armenia. In January 2023, this indicator grew by approximately 11 billion drams compared to the same month of the previous year, as shown in Figure 4.

In terms of the average daily volume of foreign exchange spot transactions as a percentage of GDP,

Armenia recorded a figure of 0.25% in 2022. Developed countries typically have a range of 0.5-3%, while developing countries tend to have lower percentages. The highest level of this index was observed in Switzerland at 9%, while Japan recorded 4.34%.



Figure 4. The volume of foreign currency spot operations in RA in the period from January 2022 to April 2023 [2]

The banking system in Armenia was not unaffected by the situation arising from the Russian-Ukrainian war. The significant influx of foreign currency, increased volume of foreign exchange transactions, absence of standards determining the spreads for buying and selling foreign currency by The Central Bank, and the rise in over-the-counter trading in rubles resulted in excess profits for banks.

By mid-2022, the spread between the dram-dollar exchange rates reached ten drams, but it has

currently reduced to not exceeding six drams. While the central bank has the authority to regulate the spread, doing so may not necessarily promote market development but rather prevent banks from earning excessive profits. What holds more significance is the progressive development of the market, which would naturally lead to a spontaneous narrowing of the spread.

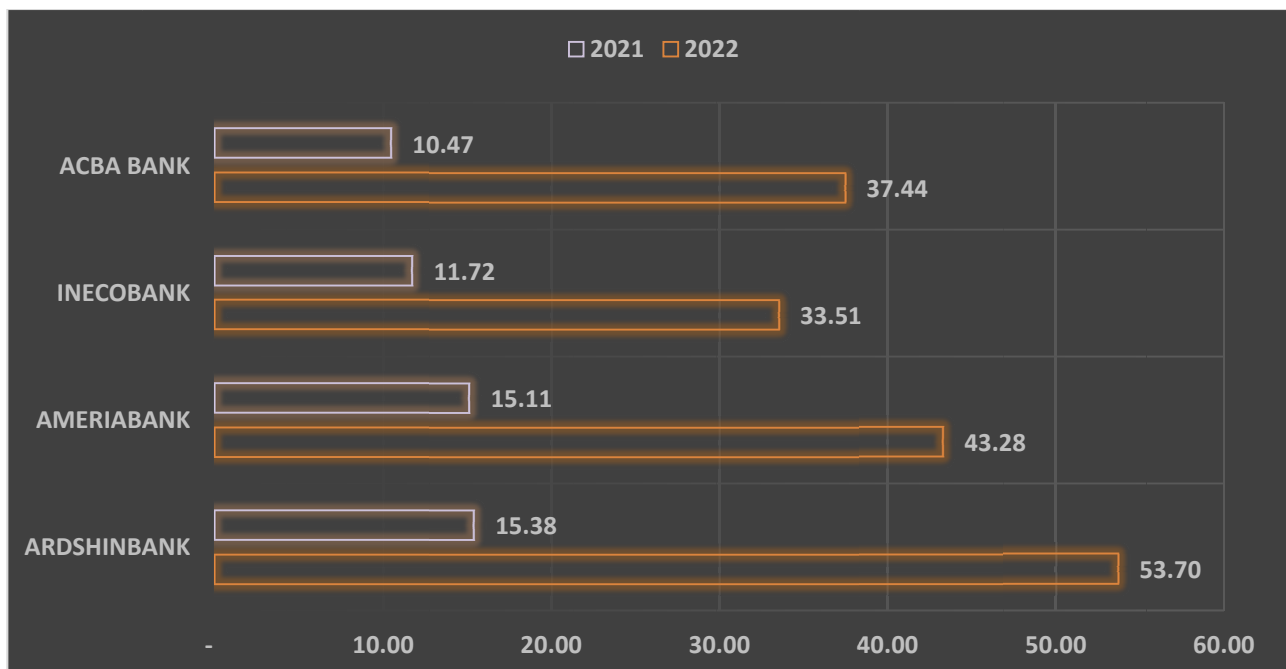


Figure 5. The share of income from foreign currency transactions in the operating income of the four leading banks in RA in 2021 and 2022 [3; 4; 5; 6]

In 2022, the banks operating in Armenia experienced a substantial increase in their total net profits. The total net profit for the year reached 263 billion drams, which is 197 billion drams or approximately four times higher than the previous

year's result [7]. As mentioned earlier, a significant portion of these profits was generated from foreign exchange transactions. In 2021, income from foreign exchange transactions accounted for just over 15% of the banks' operating income. However,

in 2022, it rose to over 30% of the operating profit. For instance, the income of Ardshinbank from foreign exchange transactions accounted for more than half of its operating profit at 53.7%, as shown in Figure 5.

Although, the foreign exchange market in Armenia is one of the most regulated spheres by The Central Bank, the market still has a lot of problems, and a part of them is a result of that regulation. The part of these problems have become more apparent during periods of dram's appreciation.

One of the most crucial problems in the national currency market is the absence of a market rate. There is currently no platform in Armenia where supply and demand can determine foreign currency prices. Instead, exchange rates for buying and selling foreign currency are set by banks based on their foreign exchange positions. The Central Bank too has its impact on foreign exchange rates by by collecting foreign currency from the market or pouring it into the market through auctions. So having a market rate is a vital necessity : Previously, the Armenia Stock Exchange had an active foreign exchange market, but the lack of transparency in transactions caused participants to avoid trading there. Therefore, it is essential to establish a foreign exchange trading platform that allows buying and selling foreign currencies at market rates. Moreover, not only for banks as it is now, but also other financial entities like investment and pension funds, insurance companies, investment companies, and

some non-financial companies should be involved in foreign exchange transactions. The introduction of such a platform would enable buying foreign currency at market rates at least during the exchange's operating hours, regardless of the rates set by banks.

To ensure the functioning of the market, the introduction of market makers in the foreign exchange market is crucial. The institution of market makers, as demonstrated by the experience with corporate and government bonds, provides liquidity and contributes to market development.

The recent appreciation of the dram has highlighted the need for developing the derivatives market in Armenia. While the stronger dram has had positive consequences for the economy, such as lower inflation rates, it also had negative effects. Companies, especially those in the information technology and export sectors, which earn a significant portion of their income in foreign currency, have experienced substantial losses as their profits in dram equivalent declined. Financial companies, including insurance companies, investment and pension funds, have also had a decrease in the value of their portfolios as foreign currency assets dominate in their portfolios. Figure 6 shows that for both Armenian mandatory pension conservative funds, the net asset value per share decreased in 2022 compared to 2021, reflecting the impact of the stronger dram.

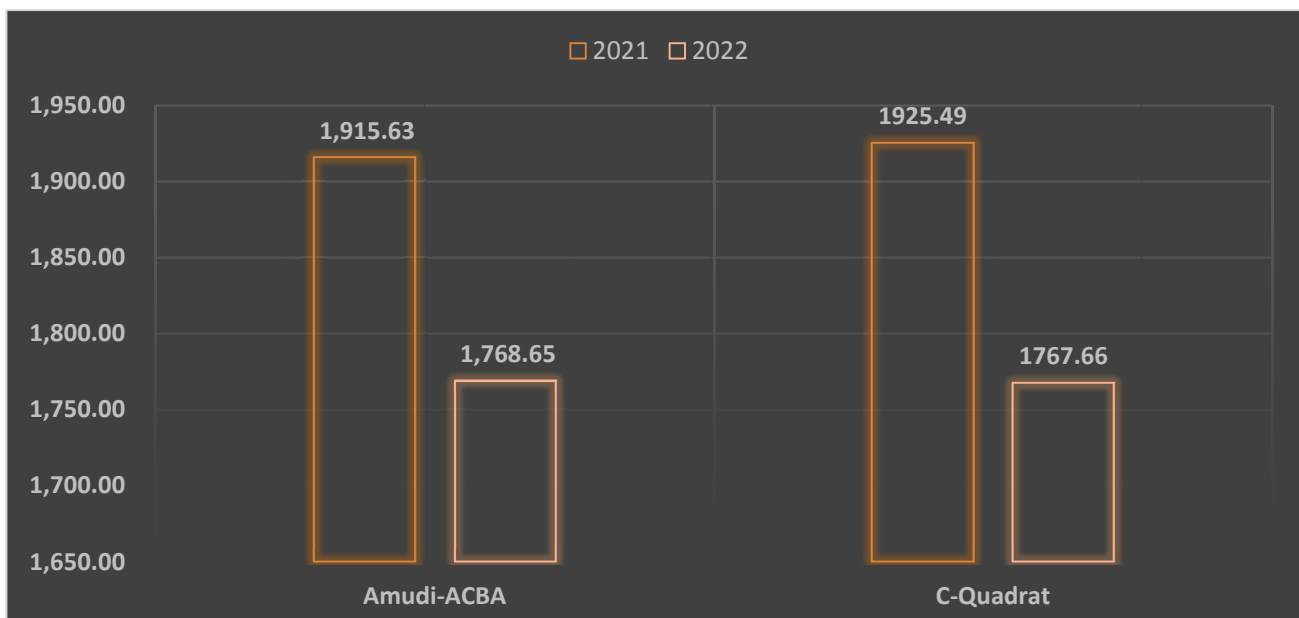


Figure 6. Net assets value of Amudi-ACBA and C-Quadrat pension conservative funds in 2021 and 2022 [8; 9]

The development of a derivatives market would provide opportunities for companies and financial institutions to hedge themselves against foreign exchange risks, mitigating the negative

consequences of dram appreciation and supporting stability in the economy.

Currently, banks in Armenia offer forward contracts, but their efficiency is limited due to the lack of standardization. The absence of standardized

forward contracts makes it challenging for banks to hedge these contracts, leading them to avoid taking on the client's risk.

To address this issue, it is essential to introduce foreign currency futures that adhere to standardized international standards. By having such instruments available, companies will be able to hedge their currency risks more effectively. Additionally, they will have the flexibility to close positions before the expiration of the contract if necessary. Furthermore, the presence of foreign currency futures will enable banks to close their open positions using futures, which would encourage them to offer this instrument to their clients.

Conclusion. In conclusion, the foreign exchange market in Armenia faces challenges that impede its development, despite being subject to strict control by the Central Bank of Armenia. The absence of a currency exchange trading platform hinders the formation of a market rate based on supply and demand. As a result, banks set exchange rates based on their own foreign currency positions, leading to significant spreads.

The recent devaluation of the national currency has underscored the need for a functioning derivatives market to effectively hedge currency risks. Companies and financial institutions would benefit from standardized foreign currency futures that adhere to international standards, enabling them to manage their currency exposures more efficiently.

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