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GUEST EDITOR'S NOTE

The Armenian economy experienced rapid growth over the past decade, in particular growing at double digit rates since 2001. At the same time the country experienced a number of shocks that may have implications for the country's competitiveness and sustainability of continued growth. These include the rapid appreciation of the Dram, low financial intermediation, and stalled reforms among others.

This timely volume contains six papers that address various aspects of the competitiveness of the Armenian economy. These include the effects of the appreciation of the exchange rate, competition in the banking sector, productivity at the firm level, the overall competitiveness of the private sector, as well as the agricultural sector and the impact of farmer training.

The first paper by Mher Baghramyan and Vahram Ghushchyan addresses the appreciation of the Dram and its implications for the competitiveness of the IT, tourism, and food processing sectors. The authors explore the relationship among exchange rates, technical efficiency, and export and profitability of firms operating in Armenia. They find that exchange rate appreciation has serious implications for firm profitability.

The appreciation of the Dram also raises the question of whether the exchange rate is misaligned. The second paper by Vahe Heboyan and Lewell Gunter explores the underlying factors that explain the exchange rate dynamics in Armenia. Their results show that the Armenian currency is misaligned from its long-run equilibrium path. However, they also report that the degree of misalignment is sensitive to the set of variables used in the estimation and call for further work.

Turning to the banking sector, the third paper, co-authored by Era Dabla-Norris and Holger Floerkemeier, studies the determinants of banking interest rate spreads and margins in Armenia. They find that a large proportion of the variation in spreads and margins can be explained by bank size, liquidity, and market power, as well as the market structure within which banks operate. The results suggest that there is a large potential to increase cost efficiency and competition in the banking system.

The fourth paper by Karen Grigorian and Vahram Stepanyan examines firm level evidence on the sources of productivity growth in the Armenian economy. They estimate total factor productivity (TFP) using a sample of firms in the manufacturing and service sectors, and investigate its variation across industries, time and region. They find that technical efficiency is highest in the jewelry, furniture and juice sector as well as mining, and lowest in chemicals, textiles and construction; the service sector operates at the mean of technical efficiency across the economy. However, the authors conclude that Armenia is not experiencing any growth in technical efficiency.

Moving to the big picture, the next paper by Manuk Hergnyan, Gagik Gabrielyan, and Anna Makaryan examines the competitiveness of the Armenian private sector. The paper reviews Armenia's economic achievements and studies the underlying factors and causal links to the country's competitiveness. It also advances a set of recommendations to position Armenia in the region and globally.

The last paper, co-authored by the team of Kenneth Fortson, Ester Hakobyan, Anahit Petrosyan, Anu Rangarajan, and Rebecca Tunstall, reviews the major features of the Millennium Challenge Account program and lays out the methodology on how to study the impact of farmer training. The results of the evaluation will assess the farmer training program's success in increasing the adoption of effective agricultural practices, increasing cultivation of higher-value crops, improving farm productivity, increasing agricultural profits and household income, and reducing poverty rates.

Guest Editor
David Joulfaian