

ARMINFO NEWS ARTICLES
BASED ON INTERVIEW WITH IMF RESIDENT REPRESENTATIVE NIENKE OOMES
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IMF FORECASTS INFLATION IN ARMENIA TO EXCEED THE LEVEL TARGETED IN ARMENIA'S BUDGET IN 2008

April 3, ArmlInfo

By the end of 2008, inflation in Armenia will exceed the 4%(+/-1,5%) level targeted by the Central Bank of Armenia (CBA), International Monetary Fund's Resident Representative in Armenia Ms. Nienke Oomes said in an interview with ArmlInfo's correspondent.

She said that the reason for exceeding of the inflation targeted in Armenia is mainly connected with the growth in international food prices. "We are sure today that inflation will be higher than targeted at the end of 2008 but it is still hard to say how much higher it will be", she said. The IMF representative added that in March 2008 inflation made up 9.6% as compared with March 2007, 7.5% in February 2008 as compared with February 2007, and 6.6% in January 2008 as compared with January 2007. Nienke Oomes noted that food expenditures in Armenia total 53,9%, of which 14,9% - on bread and cereal products, and this characterizes the high poverty level in the country. Nevertheless, according to the results of 2007 the lowest inflation among CIS countries was registered in Armenia, while, at the same time, comparatively high import prices are observed in Armenia, she said. She partially explained this situation by high monopolization at in the domestic market, which constrains development of competitiveness in the country.

She added that the IMF does not recommend the CBA to change its inflation target, because it is not in the CBA's power to restrain the growth of prices in the republic resulting from external factors. However, if the increase in food prices in Armenia causes increases in other prices, for instance, in the sphere of public catering. Armenia's authorities will have to decrease the influence of this secondary effect, Oomes said.

First and foremost, inflation will affect the living standards of the poor segments of the population, and as 26.5% are below the poverty line in Armenia, the high growth in prices may cause social tension in the country. Furthermore, production costs may increase, and this will have a negative effect on the state of the whole economy of Armenia. If inflation begins to exceeds 10%, this may even slow down the GDP growth rates, the IMF representative said.

IMF RECOMMENDS ARMENIAN GOVERNMENT TO ADOPT A NEW LAW ON SIMPLIFIED TAX

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The International Monetary Fund recommends the Armenian government to adopt a new law on simplified tax to protect the interests of small businesses, IMF Resident Representative in Armenia Ms. Nienke Oomes said in an interview with ArmlInfo's correspondent.

According to her, the IMF recommends setting a turnover threshold for small enterprises below which they will not fall under the VAT regime. She noted that the partial abolishment of the simplified tax in Armenia at the beginning of the year caused the discontent of small businesses. The IMF representative acknowledged that small, unsophisticated businesses may have suffered from this. A truly simplified taxation regime should be created only for small enterprises, as it is inefficient to use the administrative resources of the tax service to audit the VAT claims of all these small businesses, which account for only a small part of VAT revenue.

The need to limit access to the simplified tax regime was caused by the fact that large business representatives started paying the simplified tax. If formerly this tax was paid only by 2500 enterprises, in 2007 the simplified taxation regime covered about 25,000 enterprises, including large ones, Oomes said. She added that the Internal Revenue Service of Armenia and some international organizations are currently working on a new draft law on simplified tax, which may be adopted by the end of 2008.

IN 2007 ARMENIA EXCEEDED ITS TAX REVENUE PLAN

April 4, ArmlInfo

In 2007, tax revenue in Armenia constituted 16.1% of GDP instead of the planned level of 15.6%, IMF Resident Representative to Armenia Nienke Oomes said in an interview to ArmlInfo.

Last year, tax revenue constituted 504.3bln AMD, which was 31% more than in 2006. The tax revenue plan was exceeded amid higher than expected GDP growth, and IMF considers this to be a very good result. However, it is important to know how the taxes were collected. Oomes said that she had no specific information but there were rumors that the authorities had pressured tax payers into making prepayments so as to fulfill the plan. "It is important that tax receipts are stable and the tax collection mechanism is fair and transparent. It is important to know how the taxation authorities decide which company needs to be audited, and to make sure that their choice is fair," Oomes said.

IMF recommends that all countries, and Armenia in particular, set up a special tax administration unit for dealing with large taxpayers because, when big business fails to pay taxes, the economy faces big problems.

IMF PREDICTS NEGATIVE IMPACT OF MARCH RIOTS ON ARMENIAN ECONOMY

April 4, Arminfo

The mass riots of 1 March in Yerevan that resulted in deaths of people may have a negative impact on the Armenian economy, the IMF permanent representative, Nienke Oomes, has told Arminfo.

She said those events may have a negative impact on the investment climate in Armenia, though it is too soon to offer assessments now. "We still project a 10-per-cent GDP growth in 2008 but this prediction is more uncertain. The main task for the government now is to minimize that negative effect by taking concrete steps that would indicate that the government is seriously willing to implement reforms, reduce corruption risks, make the tax and customs systems more transparent and fair and boost competition by reducing monopolies," she added.

PRIVATE TRANSFERS FROM ABROAD TO ARMENIA REDUCE PEOPLE'S INCENTIVE TO WORK: IMF REPRESENTATIVE

April 4, ArmlInfo

Private transfers from abroad to Armenia reduce people's incentive to work, Permanent Representative of IMF to RA Nienke Oomes told ArmlInfo. She said that this is one of the negative effects of large scale inflows of private transfers to the republic. "When people receive remittances from abroad, they have less incentive to work", N. Oomes said.

She also said that another negative effect of large transfers from abroad is that the dram appreciates (the dollar depreciates), exports become expensive and the country's economy grows mainly on account of services and construction. This phenomenon is called "Dutch disease", N. Oomes said. She added that Armenia's economy bears some similarities to oil-rich economies in the Middle East.

"In countries that receive a lot of revenue from oil, many people stop working. Manufacturing industries are almost absent there, while services and construction are booming. In this sense, the economy of Armenia is like an oil economy, but without the oil", the IMF representative said. "Instead of exporting oil, Armenia exports people and real estate".