

IMF PRESS CONFERENCE

held on **September 29, 2010**

Compiled by the IMF Armenia Office

- [IMF TO RELEASE \\$56 MILLION IN FRESH LOANS TO ARMENIA](#)
- [IMF SEES SLOWER GROWTH IN ARMENIA](#)
- [STAFF-LEVEL CONCLUSION ACHIEVED IN ARMENIAN IMF PROGRAM REVIEW](#)
- [STATEMENT AT THE CONCLUSION OF AN IMF STAFF MISSION TO ARMENIA](#)
- [IMF LOWERS ITS PROJECTION FOR ARMENIA'S GDP IN 2010 TO 4%](#)
- [IMF: ARMENIA'S GOVERNMENT BUDGET DEFICIT RATIO TO GDP TO BE BELOW 3% IN 2012](#)
- [IMF: INFLATION IN ARMENIA EXPECTED TO SUBSIDE TO 7%](#)
- [IMF RECOMMENDS ARMENIAN GOVERNMENT TO PAY SERIOUS ATTENTION TO EXPORT DEVELOPMENT](#)
- [IN NOV 2010 ARMENIA IS EXPECTING TO RECEIVE \\$56MLN FROM IMF](#)
- [IMF REVISES ITS OUTLOOKS FOR GDP AND INFLATION IN ARMENIA IN 2010](#)
- [IMF FORECASTS NARROWING BUDGETARY DEFICIT IN 2012](#)
- [IMF TO EXTEND LOAN TO ARMENIA FOLLOWING MISSION'S VISIT](#)
- [IMF MODIFIES ECONOMIC FORECAST FOR ARMENIA](#)
- [IMF GIVES POSITIVE ASSESSMENT TO CBA DEDOLLARIZATION POLICY](#)
- [IMF FORECASTS 4 PER CENT ECONOMIC GROWTH IN ARMENIA](#)
- [THERE IS NO SUCH A COUNTRY](#)
- [OVERPAYMENTS WORRY IMF](#)
- [IMF WILL AGAIN GIVE A LOAN TO ARMENIA](#)
- [INTERESTS STUCK IN THE MIDDLE](#)
- [ARMENIAN ECONOMY HAS ENTERED THE STAGE OF REVIVAL, IMF REPRESENTATIVE SAYS](#)
- [IMF CRITICAL OF ARMENIA'S TAX POLICY](#)
- [ARMENIA'S ECONOMIC GROWTH TO BE 4 PERCENT, THE IMF SAYS AND VAT REFUNDS ARE 'RIDICULOUSLY HIGH'](#)
- [ARMENIA CANNOT GROW ONLY BY CONSTRUCTING BUILDINGS](#)
- [BUDGET DEFICIT TO GO DOWN](#)

IMF TO RELEASE \$56 MILLION IN FRESH LOANS TO ARMENIA

September 29, Radio Free Europe/Radio Liberty

The International Monetary Fund (IMF) said on Wednesday it could provide Armenia with a fresh \$56 million installment of a \$395 million loan package approved by the IMF in June.

The news came in a written statement, in which the IMF insisted that Armenia is "slowly recovering" from last year's recession that resulted in a more than 14 percent fall in GDP. It predicted that the Armenian economy will expand by 4.5 percent next in 2011.

The statement followed a two-week visit to Yerevan by a high-level IMF mission led by Ratna Sahay, deputy director of the fund's Middle East and Central Asia Department. It said the mission's talks with senior Armenian officials could lead to the disbursement of the \$56 million.

The statement reaffirmed the fund's largely positive assessment of the Armenian authorities' economic policies. It said the mission at the same time urged them to take "further steps to modernize tax administration and reduce tax evasion." The IMF officials also called for "bolder and deeper reforms" needed to improve Armenia's business environment, it said.

The IMF also said it has revised downwards its most recent growth projection for Armenia because of a sharp fall in the country's agricultural output resulting from bad weather.

According to official statistics, Armenia's Gross Domestic Product rose by 3.1 percent during the first eight months of this year. The National Statistical Service (NSS) recorded a growth rate of 6.7 percent in the first half of 2010.

NSS data show that the economic slowdown was mainly attributable to a 18 percent year-on-year slump in agricultural production, which generated more than 14 percent of the GDP in January-August. A 2.4 percent contraction of the Armenian construction sector, still reeling from the 2009 global recession, was another factor.

Economic growth in the country had progressively accelerated from January through May on the back of rising international metal prices and remittances inflows from Armenians working abroad. As recently as in June, Finance Minister Tigran Davtian forecast a full-year growth rate of 7 percent. The IMF was more cautious, saying that growth will come in at around 5 percent.

The latest macroeconomic data led the IMF to slash the projection to "about 4 percent." "We revised downwardly our GDP projection for 2010 exclusively because the extent of the shock to the agricultural sector had not been anticipated in our previous missions," said Guillermo Tolosa, the fund's resident representative in Yerevan.

"It is interesting because the agricultural sector was one of the few sectors, if not the only one, that had sort of avoided the effects of the international storm that took place in 2009 only to suffer a very homegrown Armenian storm in 2010," Tolosa told a news conference.

The sector was hit hard by an unusually cold and rainy spring. Heavy rain and hailstorms caused serious damage to farmers across Armenia, dramatically pushing up the cost of fruits and vegetables.

The unfavorable weather conditions appear to have not inflicted serious damage on key autumn crops such as grain and grapes, though. The sector's full-year performance is therefore expected to be less dismal. [Top of the Document](#)

IMF SEES SLOWER GROWTH IN ARMENIA

September 29, Radio Free Europe/Radio Liberty

The International Monetary Fund said on Wednesday that it has revised downwards its most recent growth projection for Armenia because of a sharp fall in the country's agricultural output resulting from bad weather.

According to official statistics, Armenia's Gross Domestic Product rose by 3.1 percent during the first eight months of this year. The National Statistical Service (NSS) recorded a growth rate of 6.7 percent in the first half of 2010.

NSS data show that the economic slowdown was mainly attributable to a 18 percent year-on-year slump in agricultural production, which generated more than 14 percent of the GDP in January-August. A 2.4 percent contraction of the Armenian construction sector, still reeling from the 2009 global recession, was another factor.

Economic growth in the country had progressively accelerated from January through May on the back of rising international metal prices and remittances inflows from Armenians working abroad. As recently as in June, Finance Minister Tigran Davtian forecast a full-year growth rate of 7 percent. The IMF was more cautious, saying that growth will come in at around 5 percent.

The latest macroeconomic data led the IMF to slash the projection to "about 4 percent." "We revised downwardly our GDP projection for 2010 exclusively because the extent of the shock to the agricultural sector had not been anticipated in our previous missions," said Guillermo Tolosa, the fund's resident representative in Yerevan.

"It is interesting because the agricultural sector was one of the few sectors, if not the only one, that had sort of avoided the effects of the international storm that took place in 2009 only to suffer a very homegrown Armenian storm in 2010," Tolosa told a news conference.

The sector was hit hard by an unusually cold and rainy spring. Heavy rain and hailstorms caused serious damage to farmers across Armenia, dramatically pushing up the cost of fruits and vegetables.

The unfavorable weather conditions appear to have not inflicted serious damage on key autumn crops such as grain and grapes, though. The sector's full-year performance is therefore expected to be less dismal.

In a separate written statement, the IMF insisted that Armenia is "slowly recovering" from last year's recession that resulted in a more than 14 percent fall in GDP. It predicted that the Armenian economy will expand by 4.5 percent next in 2011.

The statement followed a two-week visit to Yerevan by a high-level IMF mission led by Ratna Sahay, deputy director of the fund's Middle East and Central Asia Department. It said the mission's talks with senior Armenian officials could lead to the disbursement of a fresh \$56 million installment of a \$395 million loan package for Armenia approved by the IMF in June.

The statement reaffirmed the fund's largely positive assessment of the Armenian authorities' economic policies. It said the mission at the same time urged them to take "further steps to modernize tax administration and reduce tax evasion." The IMF officials also called for "bolder and deeper reforms" needed to improve Armenia's business environment, it said. [Top of the Document](#)

STAFF-LEVEL CONCLUSION ACHIEVED IN ARMENIAN IMF PROGRAM REVIEW

September 30, IHS Global Insight Daily Analysis

An International Monetary Fund (IMF) mission has completed discussions relating to its Article IV Consultation with Iceland, while it also announced preliminary agreements on the Armenian economic reform programme under the first review of the Extended Fund Facility (EFF)/Extended Credit Facility (ECF) arrangements. The IMF staff note that the Armenian economy is now recovering from a deep

recession, with trade and remittances reviving. However, the important agricultural sector has this year been hard hit by adverse weather conditions. As this has been an issue in the region more broadly, wheat prices have soared, and this has further translated into rapid inflation. Thus, the IMF stresses that it is important to adhere to monetary policies that prevent this temporary external shock from further resulting in second-round inflation effects. Flexible exchange-rate policy also remains important in this respect.

The IMF underlines the needs to strengthen the interest-rate channel of monetary policy, and to reduce dollarisation and deepen markets in local currency. All these issues are connected with each other. In addition, after the 2009 crisis necessitated countercyclical fiscal policy, it now remains important to secure fiscal sustainability. The IMF particularly welcomes the reintroduction of a medium-term fiscal expenditure framework, although it stresses that fiscal discipline should first and foremost be exercised via improved revenue collection in the short and medium term, rather than major expenditure cuts, given important spending needs relating to education and health and the need to alleviate poverty. It also urges policies to strengthen competitiveness of the economy. The IMF's Executive Board is expected to consider final completion of the first review under the EFF and ECF programmes in November.

Significance: Armenia's new IMF programmes total US\$266.8 million (see Armenia: 30 June 2010:). If approved as planned, as IHS Global Insight expects, Armenia would be able to withdraw a disbursement of 36.2 million Special Drawing Rights (US\$56 million) immediately. A conclusion of the Article IV Consultation is expected at the same time. Given that Armenia is recovering from a very severe contraction, while needing to secure financing for a wide current-account gap, and at the same time tackling its longer-term issues with structural transition, continued assistance from international financial institutions is vital. [Top of the Document](#)

STATEMENT AT THE CONCLUSION OF AN IMF STAFF MISSION TO ARMENIA

September 29, States News Service

An International Monetary Fund (IMF) mission headed by Ms. Ratna Sahay, Deputy Director of the IMF's Middle East and Central Asia Department, visited Yerevan from September 9–24, 2010. The team completed the 2010 Article IV Consultation discussions and reached a staff-level agreement with the authorities on their economic reform program under the First Review of the Extended Fund Facility (EFF)/Extended Credit Facility (ECF) Arrangements with the Republic of Armenia. The total financial commitment under this IMF-supported program amounts to SDR 266.8 million (about US\$410 million). The IMF's Executive Board is expected to consider Armenia's request for the completion of the first review and conclude the Article IV consultation in November 2010. Upon approval, a disbursement of SDR 36.2 million (about US\$56 million) would be made available to Armenia.

The Armenian economy is slowly recovering from a sharp downturn of over 14 percent last year. While rebounding trade and remittances are reviving industry and services, agriculture has been hit hard by adverse weather conditions. As a consequence, overall economic activity is expected to grow by about 4 percent in 2010 and 4½ percent in 2011. Reflecting the pick-up in activity, credit has also begun to flow to the private sector.

The contraction of agricultural output, together with the spike in imported wheat prices, has translated into higher food prices. With nearly half the weight in the consumer price index, higher food prices have pushed annual inflation to 9.6 percent in August. Looking ahead, inflation is expected to moderate and decline to about 7 percent by the end of this year.

During the 2009 crisis, the authorities successfully mitigated the negative impact on the population by appropriately pursuing countercyclical fiscal policy. These policies inevitably lead to a widening of the deficit, an increase in public debt, and contributed to the deterioration in the current account balance. With the onset of the global crisis and a postponement of the exchange rate adjustment in 2009, dollarization increased rapidly.

As a consequence of domestic and external developments in 2009 and this year, important medium term challenges have emerged. There is a need to consolidate public finances to ensure fiscal and debt sustainability. Given the fragile economic outlook of its key economic partners—Russia and the European Union—there is greater urgency to step up broad-based structural reforms to boost competitiveness and diversify exports so as to raise growth rates and reduce poverty further. Maintaining macroeconomic and financial stability and deepening financial markets in local currency will be critical in helping to dedollarize the economy and raise the effectiveness of monetary policy.

Policies to secure fiscal and debt sustainability.

The mission supports the authorities' fiscal stance for 2010, which envisages substantial consolidation given the need to anchor the fiscal policy framework around debt sustainability. With the pick-up in revenue performance in the first eight months of this year, the overall deficit is expected to narrow by more than 3 percent of GDP relative to 2009, reaching about 4¼ percent of Gross Domestic Product (GDP) in 2010.

The main focus of fiscal consolidation should continue to be to strengthen revenue collection in the short and medium term, rather than expenditure compression that could hurt spending on important sectors—education and health—as well as the poor. The authorities' recent revenue and expenditure reform initiatives are steps in the right direction. These include: setting up an Appeals Council under the government to deal with tax disputes; establishing greater transparency in interpreting the law; extending e-filing coverage of tax returns; and improving the quality of taxpayer services. The IMF mission calls for further steps to modernize tax administration and reduce tax evasion and corruption, including a revamping of the value added tax (VAT) refund system, stepping up the monitoring of large taxpayers, streamlining the reporting system, and introducing a risk-based system for tax audits. On the expenditure side, the authorities aim to reverse the recent increase in poverty and improve access to social services, including in education and health sectors.

With the right policies, the fiscal deficit is projected to fall to about 2 percent of GDP in the medium term, which will ensure that public debt remains sustainable. The mission welcomes the re-introduction of the medium-term expenditure framework, suspended during the crisis, and the adoption of the new debt management strategy which intends to lower the debt over the medium term.

Policies to strengthen competitiveness of and competition in the economy.

Armenia is lagging behind many comparator countries in the area of business environment. Recent initiatives to improve regulations regarding standardization, competition rules, and public procurement, aim at bringing these in line with international best practices. But bolder and deeper reforms are needed to enhance competition, diminish monopolistic behavior, diversify exports, and more generally modernize the economy. The tourism industry remains largely untapped—it could serve as an important engine for raising growth and employment, as well as fiscal revenues and foreign exchange earnings. The mission looks forward to additional steps by the authorities in these areas, in consultation with its multilateral partners, including the World Bank.

Policies to control inflation and raise the effectiveness of monetary policy.

While monetary policy will continue to focus on price stability, a small open economy like Armenia will inevitably face temporary shocks that are out of the authorities' control. The mission shares the

authorities' views that the recent increase in consumer prices is mostly attributed to higher imported wheat prices and domestic food prices following the unfavorable weather conditions earlier in the year. A key goal of monetary policy should be to ensure that such temporary increases in prices do not translate to permanently higher inflation through second-round effects.

The Central Bank of Armenia's (CBA) policy rate remains appropriate as a signal of the monetary policy stance. To strengthen the interest rate channel of monetary transmission, the CBA should continue to actively manage liquidity by using all available monetary policy instruments to ensure that market rates are close to the policy rate. Measures to strengthen the market for dram instruments and increase the use of dram transactions in the economy are welcome, as these would help fight high dollarization, deepen financial intermediation, and raise the effectiveness of monetary policy. The mission also welcomes the authorities' commitment to maintaining a flexible exchange rate policy which should continue to aim at smoothing sharp fluctuations in the market, guarding foreign exchange reserves, and ensuring that the economy remains competitive. At the same time, it is important that competition and labor policies are supportive of the CBA's initiatives to prevent temporary price increases of imported and domestic goods from becoming permanent.

The banking sector proved resilient to the crisis. The authorities' measures to ensure the stability of the financial system by enhancing the capital base of banks, strengthening risk management and the supervisory framework have helped at limiting financial sector vulnerabilities. Measures to enhance crisis preparedness and contingency planning are also welcome. Further measures to strengthen and develop the financial sector will be considered under the forthcoming update of the Financial Sector Assessment Program in 2011.

During their visit, the IMF mission consulted with a wide section of the Armenian society-government officials, parliamentarians, central bank officials, representatives of the international community, banking and business sectors, and civil society. The mission would like to thank the authorities and the Armenian people for their kind hospitality, fruitful collaboration, and open discussions. The IMF team looks forward to continuing their close cooperation with the authorities under the current program. [Top of the Document](#)

IMF LOWERS ITS PROJECTION FOR ARMENIA'S GDP IN 2010 TO 4%

September 30, ARKA

The International Monetary Fund forecasts a four-percent growth for Armenia in 2010, Guillermo Tolosa, IMF resident representative in Armenia, said Wednesday at a news conference.

Earlier, Tolosa said that the IMF left its 2010 economic growth projection for Armenia unchanged, at 4.8%. Explaining the lowered outlook, he said that it went down because of severe shocks in the agriculture sector. While rebounding trade and remittances are reviving industry and services, agriculture has been hit hard by adverse weather conditions. Nobody expected it in spring, when the IMF mission visited Armenia.

The IMF resident representative also said that the IMF predicted 4.5% GDP growth in Armenia in 2011. The Armenian economy is slowly recovering from a sharp downturn of over 14 percent last year. Reflecting the pick-up in activity, credit has also begun to flow to the private sector, Tolosa said. National Statistical Service of Armenia says the country's GDP grew 3.1% in Jan-Aug 2010, compared with the same period a year earlier.

In June, the World Bank's Yerevan Office said that Armenia's GDP may be close to 4 or 5 percent in 2010. European Bank for Reconstruction and Development has raised its outlook for economic growth

in Armenia in 2010 from 4.5% to 4.6%. In the 2010 government budget, GDP growth is planned at 1.2%. [Top of the Document](#)

IMF: ARMENIA'S GOVERNMENT BUDGET DEFICIT RATIO TO GDP TO BE BELOW 3% IN 2012

September 30, ARKA

Ratio of Armenia's government budget deficit to gross domestic product may be lower than 3% in 2012, Guillermo Tolosa, IMF resident representative in Armenia, said Wednesday at a news conference.

Answering the question ARKA News Agency correspondent put to him, Tolosa said that the ratio of deficit to GDP would be below 5% this year and lower than 4% in 2011.

He said that the IMF finds this gradual approach is in tune with the government's policy and international principles based on the best implementation of tax and budget policy.

The IMF resident representative thinks that sharper dynamics could have adverse impacts on the recovery of the economy after the crisis, while more sluggish dynamics could put state debt repayment stability at risk.

Hence, the chosen golden mean is the best decision.

According to statistical reports, Armenia's government budget revenue grew by AMD 87.9 billion in Jan-Aug 2010 to 503.3 billion, and expenditure by AMD 35.3 billion to AMD 529.8 billion.

It means the government handled 97.5% of the planned revenue and 83.2% of the planned expenses.

The budget deficit amounted to AMD 26.5 billion in Jan-Aug 2010 instead of the AMD 120.4 billion planned in the nine-month program and against actual indicator of AMD 79 billion at the same period of the previous year.

The 2010 government budget was passed by the National Assembly on December 10, 2009.

In this budget, the revenue is planned at AMD 742 billion, expenditure at AMD 935.5 billion and deficit AMD 193.4 billion. [Top of the Document](#)

IMF: INFLATION IN ARMENIA EXPECTED TO SUBSIDE TO 7%

September 29, ARKA

Inflation in Armenia may subside to 7% later this year, Guillermo Tolosa, IMF resident representative in Armenia, said Wednesday at a news conference. "With nearly half the weight in the consumer price index, higher food prices have pushed annual inflation to 9.6 percent in August," he said. National Statistical Service of Armenia says the country faced 7.7% inflation in Jan-Aug 2010, compared with the same period a year earlier.

Tolosa said that the contraction of agricultural output, together with the spike in imported wheat prices, had translated into higher food prices. He said that natural inflation considered without taking into account fluctuating prices for goods stays at 5 percent now. The IMF resident representative thinks that if impacts of adverse weather conditions lessen, prices for agricultural products will go down.

He said that the IMF sees no outside adverse factors able to affect things in Armenia and believes that wheat prices will return to former levels after spring 2011. In the 2010 government budget, annual inflation is planned at 4% ($\pm 1.5\%$). [Top of the Document](#)

IMF RECOMMENDS ARMENIAN GOVERNMENT TO PAY SERIOUS ATTENTION TO EXPORT DEVELOPMENT

September 30, ArmInfo

International Monetary Fund recommends the government of Armenia to pay serious attention to the development of export, IMF Resident Representative in Armenia Guillermo Tolosa said at a press-conference. As he said, export is a key to development of Armenia's economy. The country with 30 mln of population cannot develop its economy due to the internal market. According to her, they recommend the Armenian government to stimulate export and pay more attention to this issue", IMF representative said.

According to him, the situation with return of VAT to exporters is very sorrowful, and the state has owned large amounts to entrepreneurs on this tax. G. Tolosa added that there is some progress in this issue, however, the problem is slowly resolved. [Top of the Document](#)

IN NOV 2010 ARMENIA IS EXPECTING TO RECEIVE \$56MLN FROM IMF

September 29, ArmInfo

In Nov 2010 Armenia is expecting to receive the second \$56mln (36.2mln SDR) tranche in the framework of the IMF Extended Credit Facility and Extended Fund Facility, IMF Resident Representative in Armenia Guillermo Tolosa said during a press-conference today.

The total cost of the program is 266.8mln SDR or \$410mln. In June 2010 Armenia received the first tranche worth 36.2mln SDR or \$53.6mln. The program is aimed at restoring Armenia's financial-budgetary and foreign economic stability, supporting economy growth and reducing poverty.

In May 2010 IMF and the Government of Armenia agreed to redistribute the Stand-By funds between two new programs: Extended Fund Facility and Extended Credit Facility. The interest rate of EFF depends on SDR rate, that of ECF is zero. The money will be allocated till June 2013. The repayment period is 10 years, the grace period - 4.5 years. [Top of the Document](#)

IMF REVISES ITS OUTLOOKS FOR GDP AND INFLATION IN ARMENIA IN 2010

September 29, ArmInfo

IMF has damped its outlooks for GDP and inflation in Armenia in 2010 from 4.8% to 4% and from 6.2% to 7%, respectively, IMF Resident Representative in Armenia Guillermo Tolosa said during a press-conference today.

The outlooks were presented right after the IMF's mission in Armenia Sept 9-24 2010. The dropping growth rate is due to bad weather and declining agriculture. IMF did not expect such a situation in

agriculture. In 2011 IMF forecasts 4.5% GDP growth. Tolosa said that Armenia's economy is gradually recovering from the crisis. As regards the change in the inflation outlook, it is due to growing food and agricultural produce prices.

The National Statistical Service of Armenia reports that in Aug 2010 inflation was 1.3%, in Jan-Aug - 5%. In June 2010 GDP dropped by 19.2%, in Jan-July 2010 it grew by 4%.

Armenia's national budget 2010 stipulates 4 + 1.5% inflation and 1.2% GDP growth. [Top of the Document](#)

IMF FORECASTS NARROWING BUDGETARY DEFICIT IN 2012

September 29, ArmInfo

IMF forecasts that Armenia's budgetary deficit will drop from 5% of GDP expected this year to 4% in 2011 and 3% in 2012, IMF Resident Representative in Armenia Guillermo Tolosa said during a press-conference today. He said that this is an optimal scenario, a happy medium.

Higher reduction would be dangerous. He also said that the best way to enhance tax collection is to improve tax administration. According to the government's mid-term expenditure program 2011-2013, the budgetary deficit will be reduced from 7.7% of GDP in 2009 to 4.9% in 2011, 4.3% in 2012 and 4% in 2013 or from 174.9bln AMD to 165.351bln AMD. [Top of the Document](#)

IMF TO EXTEND LOAN TO ARMENIA FOLLOWING MISSION'S VISIT

September 29, BBC Monitoring Caucasus/Mediamax

International Monetary Fund (IMF) will provide Armenia a loan at the volume of 56m dollars.

Mediamax reports that the Head of IMF representative office in Armenia Guillermo Tolosa said this today, summing up the results of IMF mission's visit, which was in Armenia from 9 to 24 September.

He stressed that the mission completed the discussions and coordinated with the Armenian authorities the program of reforms, which is being realized within the framework of the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) programs. This program provides for provision of about 410m dollars.

According to IMF forecasts, following the results of 2010, GDP growth in Armenia will make 4 per cent, and in 2011 4.5 per cent. According to IMF experts, economic activity is also evidenced by the flow of credit means to the private sector.

Concerning the external debt, according to Guillermo Tolosa, in 2010, it will make 45 per cent of GDP, and this is an acceptable level. At that he noted that in 2011, this index will start increasing, however, since 2012, IMF experts forecast decline in the external debt towards GDP. [Top of the Document](#)

IMF MODIFIES ECONOMIC FORECAST FOR ARMENIA

September 29, Xinhua News Agency

The International Monetary Fund (IMF) on Wednesday modified downward Armenia's 2010 growth rate, from 4.8 percent to 4 percent. The modification was announced by IMF country representative in Armenia Guillermo Tolosa in Yerevan, according to the ArmInfo news service.

The IMF predicted a 4.5-percent growth for Armenia for 2011. The IMF country representative also modified the prediction for the country's 2010 inflation rate, from 6.2 percent up to 7 percent.

The good news, however, pronounced by the IMF official was that Armenia's budgetary deficit would drop, from accounting for 5 percent of the country's GDP this year to 4 percent in 2011 and further down to 3 percent in 2012.

According to the Armenian government's mid-term expenditure program for 2011-2013, the country's budgetary deficit would be reduced from 7.7 percent of GDP in 2009 to 4.9 percent in 2011, 4.3 percent in 2012 and 4 percent in 2013.

Guillermo Tolosa said that Armenia's economy is recovering from the crisis. By August, Armenia's inflation rate dropped to 1.3 percent, down from the January-July average of 5 percent, according to the Armenian National Statistical Service. [Top of the Document](#)

IMF GIVES POSITIVE ASSESSMENT TO CBA DEDOLLARIZATION POLICY

September 29, PanARMENIAN.Net

Maintaining macroeconomic and financial stability and deepening financial markets in local currency will be critical in helping to dedollarize the economy and raise the effectiveness of monetary policy, according to Guillermo Tolosa, IMF Resident Representative in Armenia.

"During the 2009 crisis, Armenian authorities successfully mitigated the negative impact on the population by appropriately pursuing countercyclical fiscal policy. These policies inevitably lead to a widening of the deficit, an increase in public debt, and contributed to the deterioration in the current account balance. With the onset of the global crisis and a postponement of the exchange rate adjustment in 2009, dollarization increased rapidly," Mr. Tolosa told a news conference in Yerevan.

On March 3, 2009 CBA announced the shift to floating exchange rate policy. [Top of the Document](#)

IMF FORECASTS 4 PER CENT ECONOMIC GROWTH IN ARMENIA

September 29, Tert.am

An International Monetary Fund (IMF) mission headed by Ms. Ratna Sahay, Deputy Director of the IMF's Middle East and Central Asia Department, visited Yerevan from 9:24 September 2010, according to a statement released by IMF.

According to it, the team completed the 2010 Article IV Consultation discussions and reached a staff-level agreement with the authorities on their economic reform program under the First Review of the Extended Fund Facility (EFF)/Extended Credit Facility (ECF) Arrangements with the Republic of Armenia.

"The total financial commitment under this IMF-supported program amounts to SDR 266.8 million (about US\$410 million). The IMF's Executive Board is expected to consider Armenia's request for the completion of the first review and conclude the Article IV consultation in November 2010. Upon approval, a disbursement of SDR 36.2 million (about US\$56 million) would be made available to Armenia," reads the statement.

Further is says that Armenia's economy is slowly recovering from a sharp downturn of over 14 percent last year. While rebounding trade and remittances are reviving industry and services, agriculture has been hit hard by adverse weather conditions. As a consequence, according to the statement, the overall economic activity is expected to grow by about 4 percent in 2010 and 4½ percent in 2011. Reflecting the pick-up in activity, credit has also begun to flow to the private sector.

"The contraction of agricultural output, together with the spike in imported wheat prices, has translated into higher food prices. With nearly half the weight in the consumer price index, higher food prices have pushed annual inflation to 9.6 percent in August. Looking ahead, inflation is expected to moderate and decline to about 7 percent by the end of this year.

"During the 2009 crisis, the authorities successfully mitigated the negative impact on the population by appropriately pursuing countercyclical fiscal policy. These policies inevitably lead to a widening of the deficit, an increase in public debt, and contributed to the deterioration in the current account balance. With the onset of the global crisis and a postponement of the exchange rate adjustment in 2009, dollarization increased rapidly.

"As a consequence of domestic and external developments in 2009 and this year, important medium term challenges have emerged. There is a need to consolidate public finances to ensure fiscal and debt sustainability. Given the fragile economic outlook of its key economic partners--Russia and the European Union--there is greater urgency to step up broad-based structural reforms to boost competitiveness and diversify exports so as to raise growth rates and reduce poverty further. Maintaining macroeconomic and financial stability and deepening financial markets in local currency will be critical in helping to dedollarize the economy and raise the effectiveness of monetary policy." [Top of the Document](#)

THERE IS NO SUCH A COUNTRY

September 29, Lragir

On September 29, IMF Representative in Armenia Guillermo Tolosa dwelt on the Iran-Armenia railway. Reporters asked: Does IMF advise Armenia to take a 2 billion loan from China for the railway and whether it is an economic or political project?

Tolosa said that no research has been carried out in connection with this project therefore he cannot say what the correlation between investments and profits will be. At the same time, he noted that ensuring ways for export is important for the government because Armenia cannot grow only with the help of the home market. According to him, there is no country with a population of 3 million which can develop only with the help of internal consumption. Guillermo Tolosa noted that in case of important issues, the government of course can take foreign loans, but he noted that the debt is to be reasonable and controllable. Tolosa says that they trust the Armenian government on this issue. [Top of the Document](#)

OVERPAYMENTS WORRY IMF

September 29, Lragir

International Monetary Fund representative in Armenia Guillermo Tolosa said today that in Armenia debts of the government to companies for tax overpayments are “curiously high”. He said they are working with the government on this issue. The situation is changing slowly but Tolosa believes that the government is on the right path. He said that the research team established to examine the situation and propose the necessary steps. [Top of the Document](#)

IMF WILL AGAIN GIVE A LOAN TO ARMENIA

September 29, Lragir

On 9-24 September, an IMF mission headed by Ratna Sahay was in Armenia. Within the frameworks of Extending financial and credit programs, IMF mission discussed with the Armenian government the project on economic reforms. It supposes for Armenia to get overall 410 million in the form of a loan. It is assumed that the discussion in the IMF Council will end in November. Immediately after the project approval, Armenia will receive 56 million, told reporters the IMF representative in Armenia Guillermo Tolosa. [Top of the Document](#)

INTERESTS STUCK IN THE MIDDLE

September 29, Lragir (translated from Armenian)

It is no longer a surprise that in their assessment of the economic policy ran by the Armenian authorities international financial institutions take a dualistic approach. This was demonstrated once again at the September 29 press conference convened by Guillermo Tolosa, resident representative of the International Monetary Fund in Armenia who expressed his dissatisfaction regarding some aspects while mentioning that the government was moving in the right direction. For instance, while criticizing the tax administration, the IMF, however, believes that the steps taken in this direction are positives and ‘time will show the expected positive result’.

What would an Armenian owner of a medium or small business think about Guillermo Tolosa when hearing these assessments? Maybe he will ask himself why Tolosa is in Armenia and what has Tolosa to do with Armenia and the situation in Armenia and what positive results he expects from the measures taken by the Armenian government in the area of tax administration and when these results will occur. Maybe it would be good if Tolosa was clearer in his statements and said: ‘Yes, dear Armenian owners of small and medium businesses, now you operate in an environment of tax inquisition but keep on and things will improve in a year’s time or maybe after 2 or 3 or 4 or 10 years.

Then Armenian small and medium businesses would generate stocks to be able to survive for a year or two, or for 3-4 or 10 years relying on this statement of the IMF official. And when the tax officer who cares nothing about any positive steps comes and in his usual superlative tone says that if several million of taxes are not paid then several million of fines will be charged, small and medium businesses will have to use their accumulated reserve money to be able to survive until the time comes when positive changes promised by the IMF come true.

In fact, all this sounds ridiculous as already does any press conference or assessment of the economic situation in Armenia given by an IMF official because it they are far from the reality in which Armenian businesses – particularly small and medium enterprises – operate. And the reality is that SMEs should either abandon all other affairs and dedicate their efforts to fighting against the tax authorities in the

court – and it should be noted that this fight is not an equal one given the current quality of the Armenian judicial system – or obediently follow the discretionary requirements of tax officers.

The IMF should either speak directly and explicitly about this or refrain from giving any comments because the positive steps that are being taken in terms of setting some policies and the like are a sheer formality unless an independent judicial system is put in place where businesses can contest violations of these policies. But it is also clear that the IMF refers to positive steps because it has its own stake in it, i.e., achieving maximum influence on the Armenian government.

In turn the government does its best to satisfy the IMF rather than Armenian citizens and businesses. In the meantime Armenian businesses should be lucky if any of their interests were addressed because what satisfies the IMF does not address the interests of Armenian businesses, and it seldom happens when the interests of the IMF and Armenian businesses match. And since the government seeks to satisfy maximally these international financial institutions in order to deserve their positive assessments and present the latter as the best evidence to businesses and citizens who are dissatisfied with its economic and fiscal policy, the interests of Armenian businesses are virtually stuck in the center of relationships between the government and international financial organizations. [Top of the Document](#)

ARMENIAN ECONOMY HAS ENTERED THE STAGE OF REVIVAL, IMF REPRESENTATIVE SAYS

September 29, Armradio

Prime Minister Tigran Sargsyan received the delegation headed by Ratna Sahay, Deputy Director of IMF Middle East and Central Asia Department. IMF Permanent Representative in Armenia Guillermo Tolosa was present at the meeting.

The parties discussed the details of the programs implemented by the International Monetary Fund. Ratna Sahay highly appreciated the high level of program implementation in Armenia as compared to other countries and noted that the Armenian economy has entered the stage of revival. She welcomed the steps the Central Bank of Armenia has taken to ensure stability on the financial market. [Top of the Document](#)

IMF CRITICAL OF ARMENIA'S TAX POLICY

September 29, Tert.am

Guillermo Tolosa, IMF Resident Representative in Armenia, is critical of the Armenian Government's tax policy. He considers the VAT rates – the Government's debt to exporters – to be curious. At a news conference in Yerevan on September 29, Tolosa pointed out that the IMF office is discussing the problem with the Government to find out why the debt is so huge. The Government discourages export instead of promoting it, the IMF official says. He also pointed out that in its letter to the IMF the RA Government pledged to resolve the problem.

Guillermo Tolosa welcomed the Armenian Government's latest steps in tax administration. A commission to consider complaints will be formed at the RA Ministry of Finance, and the ministry will be entitled to respond to questions concerning taxation. [Top of the Document](#)

ARMENIA'S ECONOMIC GROWTH TO BE 4 PERCENT, THE IMF SAYS AND VAT REFUNDS ARE 'RIDICULOUSLY HIGH'

September 29, Azg Daily (translated from Armenian)

During his yesterday press conference Guillermo Tolosa, IMF resident representative in Armenia referred to the results of the two-week IMF mission in Armenia led by Ratna Sahay, deputy director of the IMF Middle East and Central Asia Department and presented the IMF observations about the economic situation in Armenia.

Guillermo Tolosa noted that after last year's 14 percent negative economic growth the Armenian economy was slowly recovering. According to Tolosa, the sectors of industry and services are reviving but agriculture has severely suffered from unfavorable weather conditions. Therefore, the IMF expects that this year the gross domestic product (GDP) will be 4 percent and in 2011 it will reach the level of 4.5 percent. The annual growth indicator which was 9.6 percent in August is expected to be lower by the year-end (7 percent).

According to the IMF representative, the public finance stance should be strengthened in order to ensure manageability of the state budget and debt. Referring to unfavorable outlooks for Russia and the European Union which are Armenia's main partners, Guillermo Tolosa highlighted the importance of rapid implementation of structural reforms aimed to increase the competitiveness of the Armenian economy and diversify its exports.

The IMF mission anticipates that state revenue performance will improve which will allow to reduce the budget deficit by around 4.75 percent of GDP. Next year this indicator should be below 4 percent, and in 2012 it should be less than 3 percent. Guillermo Tolosa mentioned that this approach taken by the Armenian government towards reducing the budget deficit was correct and consistent with international practices. He also added that if this indicator was reduced at a higher pace then it could harm the economic recovery and its slower pace would adversely affect the external debt tolerance. With regard to the external debt/GDP ratio, the IMF representative stated that this year it would be around 45 percent of GDP, and next year it would grow to some extent and from 2012 it would start decreasing.

In his answer to the question about accumulation of VAT overpayments, Guillermo Tolosa noted that the amounts refundable to businesses are 'ridiculously high' and that they want to understand why it is so because it is a counter-stimulus for export. At any rate, according to the IMF representative, the Armenian government has assured the Fund that efforts would be taken to rectify the situation. [Top of the Document](#)

ARMENIA CANNOT GROW ONLY BY CONSTRUCTING BUILDINGS

September 29, Capital Daily (translated from Armenian)

According to the IMF Representative, in two years 25% of Armenian budget will be spent on servicing foreign debt.

"Bolder and deeper reforms are needed in order to enhance competition, diminish monopolistic behavior, diversify exports, and more generally modernize the economy", concluded the members of the IMF Armenian team.

In November, the International Monetary Fund may provide to Armenia SDR 36.2 million (about US\$56 million) financing within the framework of two credit programs implemented in Armenia . Funds will be

disbursed under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) Arrangements with the Republic of Armenia.

The IMF Resident Representative to Armenia, Guillermo Tolosa, says that the IMF urges the Armenian Government to take additional steps in order to improve tax administration, and minimize incidence of tax evasion and corruption. Furthermore, he underlines that Armenia cannot develop exclusively by selling goods in domestic market and erecting buildings, therefore exports are critical.

According to the press release issued by the IMF, an International Monetary Fund mission visited Yerevan from September 9–24, 2010. The team completed the 2010 Article IV Consultation discussions and reached a staff-level agreement with the authorities on their economic reform program under the First Review of the Extended Fund Facility (EFF)/Extended Credit Facility (ECF) Arrangements with the Republic of Armenia.

The IMF Executive Board is expected to consider Armenia's request for the completion of the first review and conclude the Article IV consultation in November 2010. Upon approval, a disbursement of SDR 36.2 million (about US\$56 million) would be made available to Armenia. The total financial commitment under the two IMF-supported program amounts to SDR 266.8 million (about US\$410 million).

Yesterday, the IMF Resident Representative to Armenia, Guillermo Tolosa summarized the work of the mission during a press-conference.

Mr. Tolosa indicated that the Armenian economy was slowly recovering from a sharp downturn of over 14 percent last year. As a consequence, overall economic activity is expected to grow by about 4 percent in 2010 and 4½ percent in 2011. The contraction of agricultural output this year had a serious negative impact over growth. He mentioned that together with the spike in imported wheat prices, contraction of agricultural output pushed annual inflation to 9.6 percent. According to him, food products constitute nearly half the weight in the consumer price index. Looking ahead Mr. Tolosa considers that inflation is expected to moderate and decline to about 7 percent by the end of this year.

Speaking about the budget and sustainability of debt, the IMF official indicated that the Fund supports the authorities' fiscal stance for 2010, which envisages substantial consolidation given the need to anchor the fiscal policy framework around debt. With the pick-up in revenue performance in the first eight months of this year, the overall deficit is expected to narrow by more than 3 percent of GDP relative to 2009, reaching about 4¾ percent of Gross Domestic Product in 2010. "The main focus of fiscal consolidation should continue to be to strengthen revenue collection in the short and medium term", Mr. Tolosa said.

He added that in 2010 Armenia's foreign debt is expected to equal 45% of GDP, while in 2011 it will grow. Over 2013-2014 budgetary allocations for servicing foreign debt will rise up to 25% of the overall budget and the government should be ready for that. The IMF official does not see any problems that may arise in terms of servicing foreign debt and provided that the authorities continue to work with the IMF on foreign debt issues, the situation will be kept under control. Mr. Tolosa indicated that Armenia still have room for attracting new debt, provided that is contracted on favorable terms and within reasonable limits.

"The IMF mission calls for further steps to modernize tax administration and reduce tax evasion and corruption, including a revamping of the value added tax (VAT) refund system, stepping up the monitoring of large taxpayers, streamlining the reporting system, and introducing a risk-based system for tax audits", Mr. Tolosa said.

According to the IMF Resident Representative, there is greater urgency to boost and diversify exports, instead of hindering its growth. "The stock of the outstanding VAT refund claims in Armenia is extremely high. We always bring forward this problem in our discussions with the authorities, trying to identify the

underlying factors of this major problem”, Mr. Tolosa said and added that a working group has been established in order to study the issue of a huge stock of outstanding tax credits, furthermore the authorities have committed to taking steps with the view to enhance VAT refund process. According to Guillermo Tolosa, being a small country, Armenia should set as a priority export of goods and services. “Armenia cannot develop exclusively by selling goods in domestic market and erecting buildings”, the IMF official claimed.

The IMF mission has also indicated that Armenia was lagging behind many comparator countries in the area of business environment. “Bolder and deeper reforms are needed to enhance competition, diminish monopolistic behavior, diversify exports, and more generally modernize the economy”, concluded the members of the IMF mission. [Top of the Document](#)

BUDGET DEFICIT TO GO DOWN

September 29, Hayastani Hanrapetutyun (translated from Armenian)

Authorities have successfully mitigated adverse effect of the crisis

Yesterday Guillermo Tolosa, IMF resident representative in Armenia stated that the authorities have successfully overcome the adverse effect of the crisis by adopting an anti-cyclical fiscal policy. He also mentioned about the negative implications of the same policy as it has led to an increase in the deficit and public debt.

‘According to the current forecasts, by the year-end the external debt will be around 45% of the GDP and it will continue to grow in 2011 and from 2012 it will gradually go down’, the IMF resident representative stated.

Taking into account the improved performance of state revenues over the first eight months of 2010, the total deficit is expected to go down by more than 3% of GDP compared to 2009. Thus, in 2010 it will reach around 4.75% of the gross domestic product (GDP). As Guillermo Tolosa mentioned, the steps taken by the authorities towards reforming state revenues and expenditures are moving in the right direction. These include: creating an appeal committee under the government for settling tax disputes, increasing the level of transparency in terms of interpreting the law, broadening the scope of tax e-filing and improving taxpayer services.

When discussing the issue of the budget deficit the speaker presented the IMF forecasts.

‘In case of implementing a correct policy the budget deficit will go down and reach around 2 percent of GDP in the medium term which will ensure preserving the manageable debt level. The mission welcomes the reinstatement of the MTEF which was suspended during the crisis, as well as the adoption of a new debt management strategy which anticipates reduction in the debt level in the medium term. In 2012 the budget deficit is expected to be below the 3 percent GDP threshold, the IMF resident representative Guillermo Tolosa stated. [Top of the Document](#)