

## INTERVIEW TO IRAVUNK NEWSPAPER

### **The IMF and Armenia**

#### **There Will Be No Second Wave of Crisis**

Guillermo Tolosa, IMF resident representative in Armenia, provided explanations regarding the inconsistency between the IMF projections and Armenian economic indicators registered this year

***Q: Why didn't the IMF projections for Armenia's economic development in 2010 correspond to the data reported by our National Statistical Service? And in general, how do you assess the current state and growth of the Armenian economy?***

**A:** I assess the current situation as highly positive and should say that both the Armenian authorities and the international community have been surprised by the positive developments and movements taking place in Armenia after the crisis. This has two elements: the first one is the recovery of the global economy; particularly Armenia's trading partners recovered faster than expected. The second reason is that Armenia itself benefitted from the better-than-expected developments in the global economy on the one hand, and the stronger demand for export, on the other. More importantly, the demand in the domestic market was higher than expected.

***Q: Does this mean, then, that the main reason was the developments in international markets growing faster than predicted.***

**A:** Yes, this was the main reason. Our latest projection for the annual GDP growth in 2010 is 4.8 percent. In this sense there is no inconsistency.

***Q: However, initially the annual growth number cited was 1.2 percent.***

**A:** This is what I meant: after we made the projections, we received good news both about the developments in the global economy and the domestic economy.

***Q: Recently there have again been projections of deepening risks of repetition of the crisis in international financial markets and particularly in the US. How do you assess this news? Is a second wave of the crisis becoming a reality and particularly now, against a background of economic damages caused by climate anomalies?***

**A:** At the moment, IMF assesses that there will not be a second wave of the crisis in the global economy or in the Armenian economy. However, there are higher risks associated with that scenario in the last 3 months as sovereign risks in European markets have increased and could cause some negative financial behaviors and have a negative impact on the real sector of the economy. To clarify what I said, the risks that have emerged in financial markets are associated

with sovereign risks of individual countries. As such, they cannot result in a new recession or a new economic downturn.

***Q: Coming back to our economy we should note that Armenian government assesses the very low level of diversification as the main weakness. However, now most of the criticism is about the heavy reliance of economic growth on tax collection. What are your assessments?***

A: I will try to divide the question into two parts: the first part – about diversification I would say I agree that the economy is poorly diversified and there are two issues related to it. One is that small, tiny sectors contribute to the economic growth impeding the potential for economic development. With better diversification, when several sectors suffer more from possible developments, others do not suffer as much. As a result the economy does not suffer such a big negative impact.

As far as tax collection is concerned, the increase in tax collection was stable in the first half of the year and it increased at a faster pace than the GDP. As you correctly noted, the share of tax collection in GDP is quite high, but it is not the only reason behind economic growth.

***Q: I did not mean that. Rather, how does your organization assess it?***

A: To say the truth up to now our opinion on tax collection was quite grim and it disappointed us. What is pleasing is the fact there is a lot of enthusiasm in the program, that we signed with the authorities recently, to improve and further increase tax collection in general. However, we believe that there is still plenty of room for improvement.

***Q: Will you elaborate on what reforms you are referring to?***

A: Firstly, about the targets set by us and the authorities. I think that the authorities will be more aggressive in terms of tax collection. In particular showing more enthusiasm in collection of taxes from large tax payers - the main direction, where there is a significant room for reforms.

***Q: However, the small and medium business (SMEs) is more vulnerable in Armenia and during the crisis this sector was hit hard as a result of the tightened rules by the government.***

A: The program that we signed with the authorities covers the SME sector. We agree with you that this is the sector that was harassed more. Our program currently establishes that the procedure for payment of taxes should be simplified for the SMEs. The tax system should be streamlined. There should be fewer opportunities for tax officials to harass SMEs because now they will have an opportunity to appeal against the actions of the officials to a body, which will be not in the SRC but outside it. This will be a new specialized committee, which will respond more quickly to negative phenomena than the court system. The SMS will be able to apply to this body in order not to spend plenty of money in the legal area and have their complaints settled quickly.

***Q: Who will be the members of the new specialized committee? Isn't there a risk of increased corruption risks?***

A: Of course corruption related risks are quite clear and distinct and the authorities clearly see them. The authorities are aware of the importance of the issue and they work with international organizations that provide advice on the proper structure and composition of the committee with a view to minimizing these risks.

The other issue that I would like to mention related to SMEs is about creating a favorable environment that would significantly limit the SRC's ability to interpret laws.

***Q: What programs were implemented by the organization this year and what programs are anticipated?***

A: In March 2009, during the peak of the crisis, the IMF and the Republic of Armenia signed a Stand-By agreement focusing on the policies related to mitigating the crisis. It involved a significantly large amount of resources that enabled the authorities not to reduce wages as well as not cut spending in health or education and other social sectors. It also provided resources for the Central bank that allowed keeping the consequences of the crisis away from the banking sector. At the end of June 2010 we terminated the program and signed a new agreement with the authorities for a new program, and I have already described some of its elements. It is called Extended Fund Facility or Extended Credit Facility. The new program focuses on medium-term issues, of course we identify the issues that exist in Armenia's economy and can impede sustainable development over the medium term. Again, the program involves large amounts of resources, but the most important issue is the interest rate, which in this case is almost zero.

Throughout the world we increasingly focus on the solution of social issues. For example, we will have targets and a floor on the spending for meeting social needs. Our objective is that the poor do not suffer a greater impact of the crisis, and that the government resources are used for protecting the poor.

***Q: Is the program mainly focusing on the pensioners?***

A: Right now the family benefit system is viewed as the most effective tool and as part of this monitoring we will first of all focus on it as the main way for reaching the poor.