



PRESS COVERAGE OF THE IMF MISSION TO ARMENIA, SEPTEMBER 3–16, 2008

IMF FORECASTS 7.5% INFLATION IN ARMENIA IN 2008

September 16, ArmInfo

According to the International Monetary Fund's forecast, tightened monetary and fiscal policies and the recent fall in international food and fuel prices are expected to bring inflation back to around 7.5 percent by the end of 2008, Ms Marta Castello-Branco, IMF Mission Chief for Armenia, said at a press-conference in Yerevan, Tuesday.

According to her, in the next few years, growth should remain robust, and inflation should stabilize around the central bank's target rate of 4 percent. GDP growth continues to be strong, but inflationary pressures are still high. Unless the economic situation worsens under the influence of foreign factors, a 10 percent real growth rate is within reach this year. Annual inflation surged to 11.5 percent in August, mostly due to external shocks, but also as a result of higher domestic demand - driven by rising incomes, rapid credit growth, and large foreign exchange inflows.

IMF REDUCES ITS ASSISTANCE TO ARMENIA FOR THE NEXT THREE YEARS

September 16, ArmInfo

IMF will provide Armenia with \$14mln-15mln in the framework of its new three-year PRGF program, IMF Mission Chief for Armenia Marta Castello-Branco said during a press-conference in Yerevan today.

The new program was discussed with the Government of Armenia Sept 3-16 2008. Castello-Branco hopes that it will be submitted for the consideration of the IMF Executive Board by the end of this year. The new assistance will be provided on preferential terms. The program will be monitored twice a year. PRGF is aimed at reducing poverty and completing reforms in the field of tax and customs administration. In the coming three years poverty rate in Armenia is supposed to be reduced from present 26.5% to 20%. Armenia will receive less money because it has risen from the group of countries with low incomes to the group of countries with medium incomes. The total cost of PRGF 2006-2008 was 23mln SDR (\$37.3mln). The loans are provided to poor countries for 10 years at 0.5% a year with grace period of 5.5 years.

BUDGET 2009: ARMENIAN BUDGET DRAFT SEES DEFICIT IN 2009

September 16, Global Insight Daily Analysis

The Armenian government's fiscal draft sees state budget revenues in 2009 totalling 908 billion dram (some US\$3 billion), ArmInfo News reports. This marks growth of 20% from this year and presents a share of 21.8% of the expected GDP. Tax revenues, in particular, are targeted at



around 732 billion dram. Meanwhile, the government projects budget expenditures at 954.8 billion dram, or at 22.9% of GDP, which translates to an annual increase of 15%. Thus, the state budget deficit is targeted at 46.7 billion dram, or 1.1% of GDP. Fiscal calculations were conducted with an exchange rate of 325.16 dram/US\$. Further, ARKA News reports that the budget draft is based on a projection of annual 2009 GDP growth at 9.2%. After government approval, the budget will be presented to the parliament. Significance: Armenia has in recent years implemented responsible macroeconomic policies, which has helped to create a good working relationship with international financial institutions.

However, while fiscal deficits have recently been moderate, increasing budget spending highlights overheating risks. Indeed, we believe that the growth projection may prove slightly too optimistic. The willingness of the Central Bank of Armenia (CBA) to let the dram appreciate in response to strong capital flows has aided inflation control, but as the effectiveness of interest rate increases still remains limited, we believe that rapid credit growth and growth in fiscal spending, together with cost pressure on inflation, indicate considerable risks to the government's macroeconomic forecasts. The International Monetary Fund (IMF) recently noted that, given the current continued and growing inflation pressure from the demand side, combined with the potential for supply shocks, both monetary and fiscal policy should be further tightened.

ARMENIAN PRIME MINISTER MEETS WITH IMF OFFICIAL

*September 17, Republic of Armenia
(translation by IMF Armenia Office)*

Armenian Prime Minister, Tigran Sargssyan, met yesterday with Lorenzo Perez, IMF senior official and the delegation headed by him, which included Mrs. Marta Castello Branco, head of IMF Armenian Mission, Mrs. Nienke Oomes, IMF Resident Representative in Armenia, and economists from the Fund.

Head of IMF Armenian Mission, Marta Castello-Branco, said that summarizing results of the mission's meetings, the visit could be described as significantly positive, and the discussions held with the Armenian counterparts as useful. She noted that during the visit, negotiations around signing a new three year program with Armenia were finished. According to the IMF representative, the new program focuses on the improvement of fiscal and monetary policies, implementation of structural reforms targeting increased productivity, reduction of impediments to competitiveness and improvement of governance. Mrs. Castello-Branco thinks that fiscal reforms will play a crucial role for achieving success in those areas.

"Presently, the world is in a difficult time-period. Given the existing situation, the IMF advises Armenia to proceed with implementation of prudent macroeconomic policies and to stay alert in order to tighten them, if necessary", she said and added that the mission was ready to thoroughly review the program issues with the Prime Minister. She described the new program as balanced, with the main emphasis put on tax reforms. She mentioned that various measures have been already taken in those directions, however there was much work that was still to be done.

The Prime Minister welcomed the visit of the mission to Yerevan and noted that discussions were extremely useful and important, because they provided the government with an opportunity to cast a fresh look at the existing problems and, on the other side, to streamline future directions of



the cooperation and to better identify the new challenges. Tigran Sargssyan said that, as a matter of fact, there was no issue on which the government and the IMF could have disagreed, and agreement was reached on the overall conditionality of the program, which was evidence of the effectiveness of negotiations. According to the Prime Minister, now is the time to correctly estimate risks of the program and commit to its implementation.

PROGRAM OF STRUCTURAL REFORMS IN ARMENIA ENCOURAGING IMF REPRESENTATIVE DISAGREES WITH LEVON-TER PETROSSIAN'S STATEMENT MADE AT THE RALLY

*September 17, Republic of Armenia
(translation by IMF Armenia Office)*

The IMF mission team, headed by Mrs. Marta Castello-Branco, has been currently visiting Armenia. During the press conference held yesterday, the head of the mission informed journalists that the visit pursued two objectives: to carry out Article IV consultations, which are provided to all IMF member countries, and the second, to negotiate with the Armenian authorities a new program of assistance to Armenia.

Marta Castello-Branco informed that, while Armenia has maintained strong growth performance, inflationary pressures continued to grow, fueled by the August conflict between Russia and Georgia. Given the existing situation, the IMF advises political leaders of our country to remain prudent and indicates that the policies that have been carried out so far can be viewed as sound.

Speaking about inflation, the head of the Armenian mission stated that they were caused by the growth of the current account deficit, credit, and wages. To her viewpoint, to curb inflation, tight monetary policies should be implemented, which has been actually done by the Central Bank. She projected that inflation will slow down by the end of the year, but it would not be as low as it was forecast by the CBA. If no further shocks occur, the IMF forecasts that inflation in Armenia will be equal to 7.5 percent by the end of the year.

The annual growth this year will probably total 10 percent. To sustain this target, Armenian authorities should accelerate implementation of the tax and customs reforms, which would help to reduce shadow economy and create equal tax conditions.

Concerning the new Fund program of assistance to Armenia, Mrs. Castello-Branco indicated that it would be aimed at reducing poverty and ensuring economic growth. There will be less financing under the program than before: around 14-15 million US dollars, again on concessional terms, with 0.5 percent annual interest rate. The Fund will review the new program at the end of this year. The main goal of the program is to signal IMF support to the program of macroeconomic policies and structural reforms, with a view to fostering the transformation of Armenia from a country with a low income level to that of a middle income level, and facilitate its integration with the world economy.

Commenting on the recent merger between tax and customs agencies, the head of the Armenian mission said that, to a certain degree, these structures should have management autonomy, to avoid an overlap of functions.



In response to the question whether the IMF made calculations of the damage incurred by Armenia from the Russian-Georgian conflict, given that US Congress stated that Armenia had lost more than 650 million dollars as a result of those events, Mrs. Castello-Branco said that they did not make such assessments, however they knew that substantial volumes of cargo were congested in Georgian ports and it was impossible to transport them to Armenia.

Another question was related to the announcement that Armenia will face an economic crisis in the upcoming winter, made during the rally by leader of radical opposition, Levon Ter-Petrossian. In response to the question "Do you agree with this statement?" Marta Castello-Branco said that she did not. She thinks that at present all the countries of the world are facing problems, including the USA, where people are worried about the future of their savings, because of the existing financial difficulties in their country. She believes that what is being done in Armenia presently inspires confidence. Monetary policy is being tightened, and the program of structural reforms is encouraging. These activities yield promising results, and this is what Armenia really needs.

NEGOTIATIONS ON NEW IMF THREE-YEAR PROJECT IN ARMENIA COMPLETED

September 17, ARKA

Negotiations over a new three-year project to be implemented in Armenia under support of the International Monetary Fund (IMF) are completed, Head of IMF Office in Armenia Marta Castello-Branco said at her meeting with Armenian Premier Tigran Sargsyan.

She said that the new program aims at improving Armenian fiscal and monetary policy, better implementation of structural reforms to raise productivity.

Castello-Branco stressed the importance of reforms in tax and customs administration. The IMF recommends that the Armenian authorities continue conducting prudent macroeconomic policy and are ready to tighten it if required, she said.

INTERNATIONAL MONETARY FUND ADVISES ARMENIAN GOVERNMENT TO CONTINUE CAUTIOUS MACROECONOMIC POLICY

September 17, ARKA

International Monetary Fund advises the Armenian Government to remain stuck to its cautious macroeconomic policy, Marta Castello-Branco, the head of IMF mission in Armenia, said at her meeting with Armenian Prime Minister Tigran Sargsyan in Yerevan on Tuesday.

Governmental press office says Lorenzo Perez, the IMF director, and other members of the IMF delegation headed by him were present at the meeting.

Castello-Branco said that Armenia should be ready even to tighten this policy amid the difficulties the world faces now.

She said that her visit to Yerevan was quite effective and the discussion useful.



Castello-Branco said that negotiations on a new three-year program were completed as part of her visit.

She said that the program pays great attention to improvement of tax and monetary/credit policies, productivity, reduction of obstacles in competition and administration improvement.

She put special emphasis on tax reforms saying they are among key focuses of the program. Armenian premier greeted the guests saying that Armenian Government attaches great importance to negotiations with IMF, since they enable the Government to consider faults in a new way.

He said that new cooperation prospects were outlined during the negotiations.

MUCH TO GEORGIA, LITTLE TO ARMENIA IMF DISAGREES WITH LEVON TER-PETROSSIAN

*September 17, Capital
(translation by IMF Armenia Office)*

The International Monetary Fund has allocated USD 750 million to Georgia, while, in contrast, financial assistance to Armenia will be reduced during the next three years. Speaking at yesterday's press-conference, the head of the IMF Armenian mission pledged only 15 million dollar assistance to Armenia, although still on concessional terms, with 0.5 percent annual interest rate. A few days ago, the IMF reviewed with the authorities the 2009 state budget and proposed to develop a new three year facility. Note that the previous program with the IMF expired in May 2008.

The IMF considers that in recent years the Armenian economy has signaled serious success, hence the country needs less concessional lending. The IMF does not share the view of US senator Menendez, who said that Armenia suffered USD 680 million losses from the Russian-Georgian conflict, although Mrs. Castello-Branco admits that they did not estimate the exact impact of the war on Armenia. "We know that cargo was congested in Georgia. If the situation did not change this would have very serious consequences", she says, projecting that it would be possible to maintain 10 percent real growth in 2008.

The double-digit growth, combined with single-digit inflation and obvious poverty reduction trends are the major indicators of the economic policy achievements in Armenia. In this regard, Mrs. Castello-Branco fully disagrees with the projections made by Levon Ter-Petrosian at the rally about severe winter and economic crisis in spring. "I don't agree with these assumptions. Presently, the situation is difficult in all the countries of the world. For example, in the United States people are worried that they will lose their savings because of the financial crisis. The current developments throughout the world have a notable impact on Armenia, which imports most of its fuel and food. However, what is being done now is encouraging, particularly, in the area of tax administration. The final results will become evident after some time, but what we already see is promising", she says.



Of course the purpose of the press-conference was not only to praise the government economic policies, which the IMF team describes as “sound.” The main criticism is related to higher-than-expected inflation. At present, it has reached 11.5 percent, but IMF forecasts that it will slow down to 7.5 percent by the end of the year, because the international prices for fuel and wheat are dropping. According to the IMF experts, there exist some domestic factors contributing to the inflation growth, such as sharp growth of private sector credit, rising wages, and large foreign exchange inflows. These factors are assessed as “fueling inflation.”

Mrs. Castello-Branco gave an evasive answer to the question whether pension and wage restrictions are consistent with the reduction of poverty. She considers that the state should pursue the policy of paying high wages, however, it should be mindful of the wage-price spiral when prices grow faster than wages. Currently, Armenia is classified as a middle income country, or emerging market. Given the existing situation, the IMF calls on Armenia to tighten monetary and fiscal policies. The execution of the 2008 budget is viewed as prudent, due to high mobilization of revenues and lower-than-planned expenditures, in spite of the 60 percent pension increase. It is expected that the 2008 state budget deficit will be lower than expected, and it will not grow in 2009, which would help to keep inflation at a comfortable level.

Tax and customs administration were described as the “unfinished agenda.” Mrs. Castello-Branco is in favor of the program of tax reforms, and admits that this time custom issues remained in the background, although the share of shadow within the Armenian economy is still very high. Furthermore, she thinks that the success of tax administration reforms is best measured by the level of combating the shadow economy. In addition, there are still delays in terms of VAT refunds to exporters, which has a negative impact on exports. The authorities have promised to solve these issues as soon as possible, thus creating an impression that the IMF is more interested in that than the government. The government commits to clear all the arrears on refund claims in future, and pay in time all the future VAT refunds.

So, what is proposed under the new IMF program? It mainly focuses on tax administration and tax policy reforms, provided that the latter will not harm the business environment. The program is aimed at turning fiscal policy into an effective instrument of demand management. As far as we know, this is a new approach in the IMF policies, because formerly the IMF always considered monetary policy as the major prerequisite for the demand control. Moreover, it is suggested that the activities of the monetary and fiscal authorities (i.e., the Central Bank and the Ministry of Finance) should be coordinated. In contrast, until now the IMF always protected the autonomy of the Central Bank from the executive government.

It is difficult to say what are the reasons for such a change. Noteworthy is that, until now, all the efforts of western european finance ministries to control or “coordinate” the activities of the European Central Bank were in vain. However, this suggestion is not new for Armenia. When Tigran Sargssyan was the CBA Chairman, he was simultaneously member of the Prime Minister's Council. The ultimate goal of the Council was to coordinate fiscal and monetary policies, which was both in the interest of the government and the central bank.

After the last changes in government, we do not know whether the Council still exists. Probably the IMF suggestion is aimed at rehabilitation of our old traditions, which are quite a revealing thing for Europe.



IMF FORECASTS 7.5% INFLATION IN ARMENIA

September 17, Interfax / Russia & CIS Business and Financial Newswire

The IMF is forecasting that inflation in Armenia will be 7.5% in 2008, well above the target of 4% plus or minus 1.5%, the head of the International Monetary Fund's mission in the country, Marta Castello Branco said at a press conference on Tuesday.

The situation with inflation is more unpredictable this year than in the past due to external factors, she said. The forecast of 7.5% is realistic if there are no new external shocks, she added.

Commodities prices, particularly for oil products and grain, have begun to fall throughout the world and this trend has also been seen in Armenia, which imports these products, she said.

If the economic situation in Armenia does not deteriorate under the impact of external factors, GDP growth will be 10% this year, as forecast earlier, she said.

IMF EXPECTING INFLATION TO REACH 7.5% IN ARMENIA BY END OF 2008

September 17, ARKA

The International Monetary Fund (IMF) is expecting inflation to exceed the planned level and reach 7.5% in Armenia by the end of this year, Head of IMF Office in Armenia Marta Castello-Branco said.

Inflation can be maintained at the level if no new external shocks occur, she said.

She stressed that tough monetary and credit policy should be conducted to scotch inflation and the Central Bank of Armenia is doing it. According to IMF's projection, economic growth rates are to reach 10% in Armenia this year, she said. Armenian authorities should speed up tax and customs reforms so that the "shadow" economy is reduced and equal taxation rules are set for everybody, Castello-Branco said.

She also reported that under a new program IMF is to provide \$14-15mln to Armenia at a soft 0.5% interest rate.

IMF DRAFTING NEW ASSISTANCE PROGRAMME FOR ARMENIA

September 18, Global Insight Daily Analysis

An International Monetary Fund (IMF) mission has discussed details of a new assistance programme with the Armenian government over 3-16 September. ARMINFO News reports that the IMF plans to approve a new loan of US\$14-15 million in the framework of a new three-year Poverty Reduction and Growth Facility (PRGF) programme, which should be submitted for



consideration to the IMF Executive Board by the end of the year. The credit extended during the new programme will come below that directed to Armenia during the 2006-08 PRGF arrangement worth some US\$37.3 million, because Armenia has been able to increase its income level. The PRGF focuses on reducing poverty and implementing reforms in tax and customs administration.

The IMF in May completed its final review of Armenia's performance under the current PRGF facility, approving a disbursement of 3.3 billion Special Drawing Rights (SDR, some US\$5.4 billion), bringing the total amount paid under the programme to 23 million SDR (see Armenia: 22 May 2008:). Significance: The Armenian authorities need to submit an up-to-date Poverty Reduction Strategy Paper before the IMF Board can approve of the new PRGF programme. Given Armenia's relatively good progress with structural reforms so far and the new government's apparent willingness to continue on this path, approval of the new programme by the IMF Executive Board should not prove problematic. However, this is not to say that Armenia does not still have major challenges to tackle in its reform path. The IMF has previously indicated that the measurement of the fiscal stance and the monetary policy targets may need to be modified in the new arrangement compared to the previous PRGF arrangement and maintained that the focus of the new programme should be strengthening the monetary and fiscal policy frameworks and deepening of structural reforms, in order to enhance productivity of the economy.

IMF: ARMENIAN GOVERNMENT SHOULD TIGHTEN ITS TAX POLICY

September 22, ARKA

Armenian Government should concentrate its efforts on tightening tax policy, Martha Castello-Branco, the head of IMF mission in Armenia, said last week.

She advised Armenian Government to pursue more cautious policy amid growing outside challenges.

Castello-Branco said Armenia is left with no option but to be adamant in its policy.

She called the Government's economic policy sound.

Although inflation rate exceeded the planned benchmark, it was mainly due to outside shocks, she said.

At the same time, the IMF representative singled out some signs prompting certain concern.

She pointed out current account of payment balance, precipitous growth of private sector crediting and fast growth of wages as the factors arousing concern.

She said that they are fueling inflation pressures.

Castello-Branco thinks that Armenia still has plenty to do, since despite considerable progress many problems are waiting for their solutions.

In her opinion, the Government should speed up reformation of tax administration.



CENTER IRRELEVANT TO THE WORLD

*September 19, 168 Hours
(translation by IMF Armenia Office)*

Since his appointment to the position of Prime Minister, Tigran Sargsyan has persistently claimed that in the near future, Armenia will turn into a regional financial center or, in other words, a business paradise for foreign investors.

However, the "Doing Business 2009" report showed that our positions in the region have deteriorated and we were largely losing to our neighbor countries – Azerbaijan and Georgia. Furthermore, the Russian-Georgian conflict proved again that, if Armenia is a center, then it is only a center of problems. After several days of hostilities in Georgia, the Armenian economy was on the brink of collapse, prices surged nearly on everything, petrol disappeared in fuel stations, etc. American congressman Brad Shermann has estimated that Armenia lost around 680 million US dollars as a result of that conflict. Information is not available about the sources of those estimates. Moreover, we failed to get any clarifications from any Armenian source on whether the real loss was indeed so huge and how it is manifested economically.

Two days ago we tried to ask the same question to Mrs. Marta Castello-Branco, head of the IMF Armenian mission visiting Yerevan. "We didn't make such an assessment, but we are aware that goods were congested in Georgian ports and couldn't be moved to Armenia", she said.

We are also aware of that fact, moreover, we have directly felt severe consequences of the conflict. To be frank, Mrs. Marta Castello-Branco said nothing new or useful in this respect. Perhaps, it was useful for some TV-reporters that a few sentences pronounced by the respectable lady were nothing more than praising of the government. For example, she said, "policies implemented by the government are extremely prudent", "ambitious reforms, especially in the area of tax and customs reforms", "up to now budget execution was prudent", "the conflict between Russia and Georgia didn't have any significant negative impact on growth perspectives, and provided the tension eases, it will be possible to sustain 10 percent real growth rate in this year", etc.

We asked Mrs. Castello-Branco whether the government consulted with the IMF prior to consolidating tax and customs agencies, and what is the IMF position on that issue. Truly saying we didn't understand anything from her answer – she mentioned that, to a certain degree, these agencies should be autonomous in order to avoid overlapping of functions. Then she spoke again about the reforms, and finally added that IMF is more focused on the tax sector. Still, it is not clear, why the IMF describes budget execution as prudent, while President Serge Sarkissian is saying that the tax service has worked very badly.

If we continue our frank analysis, there was an impression that the IMF senior officials were fully estranged from the Armenian reality, neither they were particularly interested in it. Thus, IMF says that 1.5 percent inflation in August was mainly conditioned by external shocks, combined with an internal factor - quick growth of income and credits, and large foreign exchange inflows. Mrs. Marta Castello-Branco is worried, for example, by the quick growth of wages, which can boost inflation. But she didn't express any concern about the fact that domestic importing monopolies have used this occasion to significantly increase prices on goods they sell.



Another evidence of irrelevance with the Armenian reality is the optimism that fall of international prices (in particular, prices on fuel) would be reflected in our reality. Also, that its combined effect with tighter monetary and fiscal policies would slow inflation down to 7.5 percent by end of this year. Just as a reminder, international prices on oil have dropped by 20-25 percent, while in Armenia they dropped by only 5 percent. This 5 percent drop was presented at the press conference as the supreme generosity of our importers.

Anyway, there is no need to be surprised that international institutions are not extremely interested in the real situation. They are more eager in seeing indicators framed with flying colors.

Painful as it may be, we are irrelevant to the world and the world is irrelevant to us. However, there is also something good in that fact. For example, currently the whole world is extremely concerned about the fate of Lehman Brothers. Stock exchanges throughout the world are in a great turmoil. This is not the case in Armenia, simply because here there is no stock exchange as such, or it exists only on paper. Banking systems in all countries are endangered and the central banks are taking urgent steps to rescue the major banks, by providing multibillion loans to them, because otherwise the banks will be unable to finance the economy and economic activity will collapse. In Armenia, everything is tranquil, people working in banks read about the international developments out of sheer interest, because no matter how much it is said that the banking system in our country is developed, our banks do not fulfill their major function, i.e., financing the economy. The international recession did not affect performance, lending conditions, and deposit interest rates offered by our banking system. We watched yesterday the TV program "Euronews", where a UK financial expert said "Now we are facing the last chapter of this financial crisis. This doesn't mean that the situation will not worsen from now on, there will be more bad news and also a new shock. However, we all understood one thing: loans will never be the same as one or two years ago. The system of mortgage loans will change. Money accessibility will depend on a person's solvency. We are returning to the 1970s..."

There is no threat for us in this respect, possibly because we are still in the 1970s.

IMF TO SUPPORT INCOMPLETE REFORMS IN TAX ADMINISTERING IN ARMENIA

September 26, ARKA

International Monetary Fund (IMF) is planning to start a new three-year assistance project for incomplete reforms in tax administering and tax policy in Armenia, IMF Resident Representative in Armenia Marta Castello-Branco said.

Most probably, the draft project will be submitted for consideration of IMF Board by the end of this year, she said adding that after the start of the project results will be monitored twice per year.

Reforms in tax administering will help reducing quite substantial volume of "shadow" economy in Armenia and creating more equal conditions for Armenian businessmen and entities, Castello-Branco said.

She also said that this program is to continue the previous three IMF-financed projects on Poverty Reduction and Growth Facilitation (PRGF) implemented in Armenia.



The funds to be provided under the project are not much (\$14-15mln) and the project is just a signal to the international community, Castello-Branco said. Armenia is currently transferring to the group of medium-income countries and should demonstrate its ability to implement reforms that have not been completed before.

The project is also to transform fiscal policy into a most efficient tool of demand management.

On May 19 this year, the sixth monitoring of Armenia's economic indicators was completed under PRGF project. So far, 23mln SDR or \$37.3mln have been allocated by the IMF to Armenia under the program.

RESULTS OF "DOING BUSINESS-2009" WB REPORT ON ARMENIA SHOWS NEED FOR COMPLETING REFORMS

September 26, ARKA

The results of the World Bank's report - Doing Business-2009 - on Armenia demonstrates the necessity to complete the reforms started in the country at the time, IMF Resident Representative in Armenia Marta Castello-Branco said.

Armenia ranked the 44th among 181 countries in WB's report Doing Business-2009. Armenia was the 39th in the previous year report among 178 countries.

Armenia's main problems are complicated process of tax payments and lack of equal conditions for all businessmen, Castello-Branco said. That is why a new IMF-funded project will aim at improving tax administering and tax policy, she said.

Among other widespread problems she pointed out the problem of VAT carry-back often raised by exporters saying that returning overpayments is delayed. Under the new project, IMF will try to successively solve this problem, she said. Not fast settlement of existing problems, but long-term solutions are IMF's objective, Castello-Branco said.

The IMF is planning to start a new three-year project in Armenia by the end of this year to provide assistance (\$14-15mln) in completing tax administering and tax policy reforms.



COVERAGE BY ARMENIAN TV CHANNELS (Transcripts and translation by Mediamax)

September 16, Yerkirn Aysor, Yerkir Media TV

According to International Monetary Fund forecasts, two-digit development speed of Armenian economy will be preserved, and tax collection indices will increase. At that, in the end of the year, inflation may exceed the planned index and make 7.5%. According to IMF Territorial Director for Middle East and Central Asia Marta Castello-Branco, as a result of price increase for foodstuffs in international markets, growth of prices increased in Armenia in the course of the recent few months. There are internal factors as well. In particular, Marta Castello-Branco points to the growth of incomes and inflow of currency. The Fund advises to preserve tough money-credit policy. According to experts' assessment, to improve the situation of economy, it is necessary to introduce a more distinct tax policy, increase the efficiency of tax administration and secure equal conditions for business and fair competition. (Marta Castello-Branco): "There are already advancement steps concerning reforms, but one should accelerate the improvement of tax and customs spheres. These are the main directions of the joint program of reforms between Armenia and the International Monetary Fund for the nearest future. They will allow cutting down Armenia's shadow economy and secure equal conditions for all subjects".

September 16, Epikentron, Kentron TV

IMF delegation, headed by Marta Castello-Branco, was in Armenia on September 13-16, to study the recent economic developments and carry out talks to assist Armenia. Summing up the three-year program results, which concluded in May, 2008, the Fund published a number of macroeconomic indices, as well as pointed out to priority issues of the new program. Having analyzed the developments in international markets and the recent events in the Caucasus, IMF representatives noted that the problems, related to increase of inflation, are characteristic to almost all the countries of the world. In August, inflation in Armenia in a year's course reached 11.5%, which is conditioned by external shocks, growth of demand, growth of crediting volumes and the incomes of the population. According to forecasts, inflation will cut down by the end of the year, making 7.5%. Georgian-Russian confrontation has not yet negatively influenced economic growth in Armenia, and if the tension does not continue, the growth index may make 10% this year, IMF representative assures. (Marta Castello-Branco): "We advised your country's government to be very cautious, since Armenia does not have an exit to a sea. But I should note that Armenia has been carrying out a quite healthy policy. Of course, the inflation index exceeds the one we would have liked, but this is mostly conditioned by external pressure"). AMD-USD correlation in Armenia in 2008 was described as stable by the Fund representatives. Among structural reforms, they pointed out to the new program of the government on making changes in tax and customs spheres. It was stressed that the increase of efficiency of the administrative structures' activity is more important than their association. (Marta Castello-Branco): "We intentionally referred to the unfinished program of reforms. Our attention is directed to tax administration toughening, which, in its turn, will lead to reduction of shadow economy in Armenia".

During the recent oppositional rally, Levon Ter-Petrosian forecasted a tough winter from economic point of view and condemned the government's policy. (Marta Castello-Branco): "I do not agree with this opinion. It is difficult for all the countries of the world. Even a country as rich as the USA, is concerned by global economic problems. Armenia, which is not a direct participant of



global economy, is tied to the international market concerning import of foodstuffs and fuel and it should simply carry out correct policy, which takes place, according to me. Thus, the reforms yet give hope. It is natural that such reforms take time and efforts”.

September 16, Lraber, H2 TV

IMF representatives' latest discussions aimed at studying the developments in Armenian economy and holding talks with our government on new assistance programs. This will be a three-year program with small volume of crediting to reduce poverty and develop economy, the investments making \$14-15mln. According to the Delegation Head Marta Castello-Branco, the world challenges grow for Armenia as well. There is large inflation pressure and, in this context, Armenian government was suggested to be more cautious and carry out tough policy. The policy of the recent period was assessed as healthy. Castello-Branco noted that they are mainly concerned by inflation, which is conditioned by external shocks and increase of demand. Nevertheless, IMF specialists consider reaching 10% economic growth following the results of the year realistic. (Marta Castello-Branco): “We are concerned by the speedy growth of the private sector crediting, as well as the salaries. This adds fuel to the fire, contributing to increase of price growth. Shadow economy volumes are large in Armenia, and reforms in the sphere of tax administration will help reduce those”.

September 16, Haylur, Armenian Public TV

The new three-year program to reduce poverty and develop economy is to be realized by IMF. Representatives of the Fund examined the recent economic indices in Yerevan. IMF Director Lorenzo Perez and his Delegation were received by Prime Minister Tigran Sarkisian today. IMF Delegation, headed by Marta Castello-Branco, had been carrying out examination of our country's economy in the course of three days in Armenia and discussed the issues concerning realization of the new program with the government. In Armenia, just as in the whole world, prices for foodstuffs grow. In the days of Georgian-Ossetian confrontation, problems with cargo transportations also arose.

(Marta Castello-Branco): “Armenia is a country, which does not have an exit to a sea. And it has no choice other than being tough in its policy. Recently the policy carried out by Armenia was healthy”. According to Castello-Branco, if the tension did not abate in due time, the consequences would be graver. And if there are no new shocks, by the end of the year Armenia will secure 10% economic growth.

What is Marta Castello-Branco's opinion concerning the statements of the opposition, which were voiced during yesterday's rally: Armenia is to face a difficult winter, and in early spring – a crisis situation? (Marta Castello-Branco): “No, I do not think so. Many countries go through difficult times. Even in a country, such as the USA, people are concerned by the fact that they can lose their money. Armenia is carrying out a cautious money-credit policy and a tax-budget policy, and this gives hope”.

Taking into account the marked achievements, IMF will provide Armenia less financial means, than it did last time. The new program at the volume of \$14mln on reduction of poverty and development of economy is meant to last for three years.



September 16, Zham, Armenia TV

GDP growth in Armenia was preserved. But pressure of inflation growth is greater. Georgian-Russian confrontation has not yet negatively influenced on the further growth of prices, and if the tension does not continue, this year, economic growth of 10% may be secured. Head of IMF Mission Marta Castello-Branco informed on this in Yerevan today. She noted that the annual inflation index in August reached 11.5%, which is mainly conditioned by the increase of internal demand, by large currency flows, as well as by external factors. Toughening of money-credit and tax-budget policies, as well as reduction of prices for foodstuffs and fuel, registered recently in the international market, will return the inflation index to the point of 7.5% by the end of the year. According to IMF observations, import in 2008 continued preserved speeds of quick growth, export slowed down. And AMD-USD correlation was stable. The Fund welcomes the government's new policy, due to which reforms in tax and customs spheres are in process. (Marta Castello-Branco): "Armenian government approved an all-comprehensive program, aiming at increasing efficiency of tax administration and establishing equal conditions for all subjects. What has been done till now gives hope. Concerning the new IMF program, as compared to the previous programs, less financial means will be provided. This program is also directed to reduction of poverty, but does not much differ from the previous ones. The main goal of the program is to assist macroeconomic reforms and Armenia's integration to world economy".