

## ARTICLES FROM IMF PRESS CONFERENCE

April 15, 2011

Compiled by the IMF Armenia Office

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### TAX COLLECTION IN ARMENIA STILL POOR, SAYS IMF

*April 15, Radio Free Europe/Radio Liberty*

Tax collection in Armenia remains "appallingly" poor despite government efforts to combat widespread fiscal fraud, a senior official from the International Monetary Fund (IMF) said on Friday.

Guillermo Tolosa, the IMF's resident representative in Armenia, said the authorities in Yerevan are still not doing enough to improve tax administration and the broader business environment. "Tax

revenues as a share of the economy continued to be in 2010 as appallingly low as in 2009,” he told a news conference.

According to official statistics, the Armenian government’s total tax revenues rose by more than 13 percent to 591 billion drams (\$1.58 billion) last year. They were equivalent to just over 17 percent of the country’s Gross Domestic Product (GDP).

“This ratio, this share is the lowest in ... the former Communist countries, with the only exception of Tajikistan,” argued Tolosa. He said it shows that “positive steps” taken by the authorities are not enough to tackle the problem.

“Tax collections have not increased. So that has to mean that the shadow economy has not decreased,” he added.

Finance Minister Vache Gabrielian admitted earlier this year tax collection has yet to improve significantly. He downplayed the 2010 rise in tax revenues and said more needs to be done to reduce tax evasion.

Prime Minister Tigran Sarkisian regularly describes improved tax administration as a top government priority, having pushed through parliament numerous changes in Armenian tax legislation. The most recent legal amendments approved by the National Assembly in December envisage a major simplification of the country’s cumbersome taxation requirements and procedures.

Both the World Bank and the International Monetary Fund consider radical tax reform as well as an improvement of the investment climate essential for Armenia’s sustainable economic development. Tolosa reaffirmed this view on Friday.

## **THE IMF IS AGAINST TAX INCENTIVES**

*April 16, Capital Daily*

“The IMF does not like the concept of tax holidays. We think that it can lead to additional risks for revenue collection. The Armenian government should work on enhancing business environment”, said the IMF Resident Representative to Armenia, Guillermo Tolosa.

According to the International Monetary Fund projections, by the end of this year growth in Armenia should reach 4.6%. This projection was made by Guillermo Tolosa at yesterday’s press-conference, who summarized the results of the IMF mission regular visit to Armenia. He noted that while this indicator was substantially below the pre-crisis figures, still it may be assessed as positive, in view of the on-going economic rehabilitation in the country. Mr. Tolosa pointed out that although investments into the economy will continue, however given various obstacles, their sharp increase is not expected.

The level of tax revenue collection is extremely low.

The IMF official stressed out that while tax reforms are implemented in Armenia, however, the tax environment is still not favorable for the businesses. “Certain positive steps are being taken in this direction, however there is a need for many new initiatives in order to create favorable tax environment”, he said. According to Mr. Tolosa, the Armenian government should increase tax collections, in order to ensure sustainability of the state budget and hence, to support private sector.

“The tax collection level in Armenia is extremely low. Unfortunately, still there is no evidence of closing the existing gap in this area, which proves that the share of informal economy in Armenia has

not narrowed”, said Mr. Tolosa. He commented that in terms of GDP/tax ratio Armenia is below all other FSU countries, except Tajikistan. The IMF official added that the IMF sees that the Armenian authorities are very well aware about seriousness of the problem.

Commenting on the agreement reached during the recent meeting between the Armenian president and business representatives, according to which the new production businesses in Armenia will be temporarily exempt from profit tax, Mr. Tolosa said, “the IMF does not like the concept of tax holidays. We think that it can lead to additional risks for revenue collection.”

According to Mr. Tolosa, the Armenian government should take further steps on enhancing business environment. Armenia in this regard is behind other countries of the region. Commenting on GDP/foreign debt ratio in Armenia, the IMF official said that larger part of the Armenian foreign debt has been attracted on concessional terms. “The positive trend is that compared to 2009, GDP/foreign debt ratio in 2010 has declined.”

It is expected that during the next 1-2 years, this indicator may grow, however soon the situation should stabilize”, said the IMF representative. Summarizing results of the recent IMF mission visit to Armenia, Mr. Tolosa noted that in view of the IMF Armenian economy continues to recover from the crisis consequences. It is expected that after the IMF Executive Board reviews the situation in Armenia, the next US\$ 56 million credit tranche would be disbursed to the country. Total IMF commitment within the framework of the current support program is equal to US\$ 410 million, of which the actual disbursement as of December 2010 was US\$ 55 million.

The IMF forecasts lower food prices.

“We see that the level of inflation in Armenia drops rather quickly”, said Guillermo Tolosa. He expressed an opinion that reduction of inflation was conditioned by several factors, of which the first was the drop of food and fuel prices in international market.

The IMF considers that international process will still be unstable, however spikes are not expected. According to Mr. Tolosa, stabilization of prices in international market enhanced more stable food prices in Armenia.

The second stabilizing factor is the favorable weather conditions for the agriculture. The IMF anticipates growth of agricultural output in Armenia this year and, subsequently, lower prices on sales.

The third factor is the adequate response of the government to the existing challenges.

In this regard, Mr. Tolosa pointed out steps aimed at narrowing budget deficit, and increasing refinancing rates. He mentioned that the instruments for curbing inflation available for the Central Bank are still not used as effectively as in a number of other countries. Without going into further details on such instruments, Mr. Tolosa said “the IMF assists that they could be used in full capacity”.

Commenting on the monopolies, Mr. Tolosa said there were other prerequisites for inflation in Armenia as well, therefore the IMF supports the anticipated expansion of authorities granted to the State Commission on Protection of Economic Competition.

The IMF does not recommend fixing the price ceilings.

Commenting on the government decision to establish by law price ceilings in Armenia, the IMF official said that they would not recommend such an approach, given that such administrative measures could foster further risks. “Such decisions often cause deficit of goods, higher level of smuggling and other negative developments. Such administrative measures should be replaced by social security

measures with the view to alleviating poverty in the country. The state should support vulnerable groups of populations which suffer more from the inflation burden”, said Mr. Tolosa.

### **IMF: ARMENIAN TAXATION IS NOT INCREASED, SHADOW ECONOMY IS NOT DECREASED**

*April 18, ArmeniaNow*

A representative of an international financial organization appeals to improve the taxation field in Armenia, whereas responsible taxation authorities in Armenia in their reports register progress in tax collection.

Last Friday, International Monetary Fund (IMF) Resident Representative in Armenia Guillermo Tolosa at a press conference stated that tax collection remains poor in Armenia and the reforms in the taxation sphere of Armenia still do not promote the healthy activity of business environment in Armenia.

“Unfortunately, we notice no correct steps taken, no progress in terms of this shortcoming. The interest portion of tax incomes in the economy was as unfavorably low in 2010 as it was in 2009. And this means that shadow economy has not decreased in Armenia,” Tolosa said.

In terms of taxes/GDP correlation Armenia is in the penultimate place among CIS countries, being ahead only of Tajikistan. Last year taxes totaled 16.9 percent of GDP. This year the authorities planned to make this index 17 percent.

Meanwhile, the State Revenues Committee of Armenia states that there is progress this year. According to the State Revenues Committee data, specific tax volume, paid by big business representatives abruptly grew in the first quarter of 2011, becoming 60.5 percent.

“The individual approach to largest taxpayers remains to be one of the main tendencies of the State Revenues Committee in 2011, which in its turn assumes strengthening of control, as well as improving the service quality,” said Ashot Arzumanyan, head of the Largest Taxpayers Department of the State Revenues Committee at a meeting with largest taxpayers.

Tolosa, who believes that the Armenian authorities realize how serious the problems in the taxation sphere are, advised the Government of Armenia to work on increasing the volume of tax collection.

The State Revenues Committee in its turn plans to increase the volume of revenues of the State Budget by 90 billion drams (about \$240 million), the great part of which, according to Arzumanyan, is expected to be secured at the expense of the taxes paid by largest taxpayers.

### **OFFICIAL SAYS MAKING FORECASTS ABOUT DRAM’S BEHAVIOR EXTREMELY DIFFICULT**

*April 15, ARKA*

International Monetary Fund (IMF) Resident Representative to Armenia, Guillermo Tolosa, said today it was extremely difficult to make forecasts about the behavior of Armenia’s national currency, the dram.

Speaking at a news conference he said the IMF believes that the Central Bank of Armenia (CBA) remains faithful to the policy of floating exchange rate demonstrated now by devaluing Dram.

Over the last week the Dram lost several p.p. against USD and is trading now at 376.02 According to some experts, it may devaluate as much as to 380-400 per one USD. According to Tolosa, intervention of the Central Bank in some cases was justified, but he added that 'the intervention must be in tune with market trends.'

During a March 11 meeting with top government officials in charge of economy president Serzh Sargsyan said revaluation of the Dram was having an adverse effect on economic recovery plans expressing hope that such trends would disappear gradually.

### **IMF DOES NOT ENDORSE ARMENIAN GOVERNMENT'S EXTRAORDINARY PLANS TO REGULATE KEY FOOD PRICES**

*April 15, ARKA*

The International Monetary Fund (IMF) does not endorse Armenian government's extraordinary plans designed to regulate key food prices, IMF Resident Representative Guillermo Tolosa said today when speaking at a news conference .

On March 10 the government approved a set of amendments to the Law on Trade and Services and the Code of Administrative Offences which vest it with the power to impose temporary price caps on 20 foodstuffs if their retail prices soar by at least 30 percent within a month. The list includes bread, meat, dairy products, cooking oil, sugar, and some vegetables.

According to Guillermo Tolosa, the IMF believes that such administrative measures to regulate food prices are not effective and in this sense it does not endorse the plan. He added that such measures result usually in food shortages, contraband imports, causing also additional government expenditures and distort the market.

Mr. Guillermo Tolosa said administrative measures should be substituted by targeted social security efforts which would rule out market distortions. He said the IMF understands the rationale behind the emergency plan and the government's concerns about limited competitiveness, but these problems should be stamped out gradually, he said.

### **IMF FORECAST: INFLATION IN ARMENIA IN EARLY 2012 WILL RETURN TO THE TARGET CORRIDOR SET BY CENTRAL BANK**

*April 15, ARKA*

Inflation in Armenia will continue to decline and will return to the target corridor set by CB Armenia in the first half of the next year, said IMF resident representative in Armenia Guillermo Tolosa in response to a questions from ARKA news agency.

According to Armenia's state budget, inflation in the country in 2011 is planned at the level of 4% (+1.5%).

"Inflation in Armenia is declining rapidly due to three main factors", Tolosa said Novosti international press-conference on Friday.

First, it will be backed by stabilization of internal prices due to stabilization of international prices of food and fuel.

The second factor, he said, is existence of certain prerequisites for increasing the availability of agricultural products due to more favorable climate conditions this year that will result in the decrease of agricultural production prices.

The third factor that will bring inflation down is the correct response of the Government of Armenia in the context of the conducted policy.

"Refinancing rate was increased, the budget deficit is set to drop and the integrity of macroeconomic environment maintains", he said.

On April 13, the Board of CB Armenia decided to raise the refinancing rate by 0.25 p.p. to 8.5%

According to the National Statistic Service of Armenia, inflation in the first quarter in Armenia was 5.2%. In March 2011 compared to February the inflation rate was 0.8%, mainly due to the increase of prices for food products (including alcoholic drinks and tobacco products) by 0.8% and prices of services by 0.9%.

According to government's forecasts, inflation in 2011 will be 6% in Armenia, and by EBRD assessment it will be within the planned state budget indicators .

## **IMF SAYS ARMENIAN ECONOMY SET TO GROW BY 4.6 PER CENT THIS YEAR**

*April 15, ARKA*

The Armenian economy is set to grow by 4.6 per cent this year, Guillermo Tolosa, the International Monetary Fund (IMF) Resident Representative, said at a news conference today. He said although the forecast is lower if compared to the pre-crisis years, it nevertheless is evidence that recovery trends are maintained and will exceed the 2010 growth figures. Mr. Guillermo Tolosa also said the GDP expansion may be even higher this year thanks to a growth in agricultural output that was not threatened by favorable climatic conditions. He said the government should pay bigger attention to tax collection processes to increase its budget revenues.

He said the government should also work to mitigate the consequences of the crisis for the most vulnerable segments of the population via improved access to social, education and health services, in addition to improvement of business environment, saying in this regard Armenia lags behind its neighbors in the region.

In its latest World Economic Outlook report, released Monday in Washington, the IMF said it expects growth in the gross domestic product (GDP) of Armenia to drop to 4.3% in 2012. The Armenian government GDP projection for 2011 is 4.6%. Armenian prime minister said earlier he expects it to grow to 5.2%, up from 2.6% growth in 2010. The IMF report also predicts a 9.3% inflation growth for 2011 in Armenia saying it would ease to 5.5% in 2012. The government inflation projection for 2011 is 4% (+1.5%).

## **IMF MAY PROVIDE THE THIRD TRANCHE UNDER THE EFF/ECF PROGRAM IN THE AMOUNT OF \$56 MILLION TO ARMENIA IN JUNE 2011**

*April 15, ArmlInfo*

IMF may provide the third tranche under the EFF/ECF program in the amount of SDR 36.2 mln (nearly \$56 million) to Armenia in June 2011, Guillermo Tolosa, IMF Resident Representative in Armenia, told media on Friday.

He said that IMF Executive Council will meet in June and will sum up the implementation of EFF/ECF in Armenia and study provision of another tranche. He said that IMF Mission led by Head of the IMF Department for Central Asia and Middle East Veronica Bacalu was in Armenia on March 31-April 12. The mission assessed the current state of the country's economy and the perspectives of development. G. Tolosa said that generally reforms are in the right way in Armenia and economy is recovering after the crisis.

Nevertheless, he said, reform rates are not high and tax collection at a low level. The tax collection - GDP ratio in Armenia is the lowest in the CIS after Tajikistan, he said.

By data of IMF, in December 2010 IMF completed the first monitoring of EFF (Extended Fund Facility) and ECF (Extended Credit Facility) and provided the second tranche in the amount of SDR 36 mln (nearly \$55 million) to Armenia. The EFF/ECF for Armenia with the total amount of 266.8 mln SDR or nearly 290% of Armenia's quote (nearly \$393.9 mln) was approved by the IMF Executive Council on June 28 2010. Then the first tranche of SDR 36.2 mln (nearly \$53.6 mln) was provided.

#### **IMF: ARMENIA YIELDS TO OTHER COUNTRIES IN REGION BY BUSINESS CLIMATE**

*April 15, ArmlInfo*

Economic growth for the coming few years will be retained at 4%, Guillermo Tolosa, IMF Resident Representative for Armenia told media on Friday.

He said that after the tangible decline in 2010 agriculture will certainly recover which may lead to some GDP growth. Investments will keep growing, but problems in economy and unfavorable business-climate will not allow expansive growth of investing, he said. G. Tolosa believes that Armenia yields to its neighbors in the region by business-climate. The foreign state debt of Armenia will be left at the level of 40% of GDP in the mid-term outlook, which is quite manageable for such country as Armenia.

#### **IMF FORECASTS: BUDGET DEFICIT IN ARMENIA IN 2011 TO TOTAL 4% OF GDP**

*April 15, ArmlInfo*

The International Monetary Fund forecasted the budget deficit in Armenia at the level of 4% of GDP versus nearly 8% in 2009 and 5% in 2010, Guillermo Tolosa, IMF Resident Representative for Armenia told media on Friday. He said that the budget balance has significantly improved and in 2012 the deficit will be reduced as well. Nevertheless, he said, low tax collection impedes government allocations for social needs of the population, Tolosa said.

At the same time, IMF Resident Representative vigorously opposed establishment of income tax holidays. President of Armenia Serzh Sargsyan had suggested such idea at the meeting with big business representatives lately. The president promised to adopt a law exempting the newly established import- substituting productions from income tax for a period of 3 years, if necessary.

IMF is against any tax holidays, because they are fraught with new risks, G. Tolosa said.

### **IMF REDUCES INFLATION FORECAST FOR ARMENIA IN 2012 TO SOME 4%**

*April 15, ArmlInfo*

The International Monetary Fund has reduced its inflation forecast for Armenia for the 1st half of 2012 to the target of the Central Bank (4% + - 1.5%) versus 9.3% envisaged for 2011 and 9.4% registered in 2010, says Guillermo Tolosa, IMF Resident Representative of Armenia.

He says that the forecast is reduced because of the expected price cutting in the world markets of food and fuel, as well as production growth in the agricultural sectors, reduction of the budget deficit and continuing macroeconomic stability. All these factors will contribute to price cutting in Armenia, G. Tolosa says. The state budget of Armenia envisages 4% (+ - 1.5%) inflation for 2011. In 2010 inflation totaled 9.4% and in Q1 2011 - 5.2%.

### **IMF OFFICIAL: ARMENIA`S TAX SYSTEM MAKES PROGRESS**

*April 15, News.am*

Armenia`s tax system is fairer now, but it cannot not be qualified as favorable, IMF Resident Representative in Armenia Guillermo Tolosa told journalists April 15.

One of the achievements is the formation of the appeal commission at the Ministry of Finance.

One more step is the opening of taxpayer service centers. Taxpayers do not any more have to present so many tax statements to the relevant bodies.

On the other hand, Tolosa does not welcome Armenian President Serzh Sargsyan`s proposal to exempt innovation companies from taxation for several years. It is one more risk factor for tax collection, the IMF official said.

Armenia has a very low tax-GDP ratio and ranks the bottom of post-Soviet countries` list.

### **IMF EXPECTS PRICE STABILIZATION IN ARMENIA**

*April 15, News.am*

The International Monetary Fund (IMF) expects inflation to reach the target (4±1.5%) in Armenia in the first half of 2012, IMF Resident Representative in Armenia Guillermo Tolosa told journalists on Friday.

The IMF forecast is to an extent different from that of the Central Bank of Armenia (CBA), which expects inflation to reach the target this year end.

Inflation is rapidly falling in Armenia, Tolosa said. He pointed out three factors stabilizing the prices, which include decreasing international prices for food and fuel, achieving a fruitful agricultural year,



and adequate actions by the Armenian government and CBA aimed at raising interest rates, reducing the budget deficit, and maintaining a stable macroeconomic environment.

On the other hand, Mr. Tolosa is highly critical of the government's decision on administrative regulation of prices for some products. Such measures cause deficit, smuggling and market fluctuations, the IMF official said.

Tolosa welcomes the new Armenian law granting greater powers to the Commission on Protection of Economic Competition. In many cases monopolies push up prices, the IMF official noted.

As regards the Central Bank's policy, Tolosa said that some financial instruments are not so effective in Armenia as in other countries. He promised active technical aid to the Central Bank in restoring the power of the instruments (primarily, the re-financing rate policy).

### **IMF THINKS THAT ARMENIAN CB IS ADHERENT TO THE POLICY OF FLOATING RATE**

*April 15, Mediamax*

Permanent Representative of the International Monetary Fund (IMF) in Yerevan GDP Guillermo Tolosa stated today that the Central Bank of Armenia continues keeping adherent to the policy of floating exchange rate.

According to him, this is evidenced by the change of the exchange rate in the recent period.

"We continue believing that in certain cases interferences are justified, but the degree of interference should be concordant with the tendencies of the market", Tolosa said.

### **TAX FIELD IN ARMENIA IS TO FACE "DIFFICULT CHALLENGES", IMF BELIEVES**

*April 15, Mediamax*

Permanent representative of the International Monetary Fund (IMF) in Yerevan Guillermo Tolosa said today that "Armenia's tax field is to face difficult challenges in future".

Mediamax reports that Guillermo Tolosa said that although the process of economic reforms in Armenia continues going by the correct path, IMF, just like in the past, has doubts concerning the speeds of the given process.

"In the tax field there are certain positive steps taken in the right direction. However a lot more needs to be done", Guillermo Tolosa said.

He also added that the Armenian government should continue paying attention to increase of the number of people collecting taxes.

Guillermo Tolosa noted that the government should try to mitigate the consequences of the crisis for the least secure layers of the population by increasing the volume of social services and services of healthcare.

### **IMF “DOESN’T LIKE INCOME TAX VACATION”**

*April 15, Mediamax*

Permanent Representative of the International Monetary Fund (IMF) in Yerevan GDP Guillermo Tolosa said today that IMF “doesn’t like income tax vacation.”

Mediamax reports that Guillermo Tolosa said this commenting on the statement by Armenian President Serzh Sargsian who said that the state is ready to provide tax benefits to companies producing innovative production.

The head of the state said that such companies may be freed from income tax for 3-4 years.

### **INFLATION WILL CONTINUE DECREASING IN ARMENIA, IMF BELIEVES**

*April 15, Mediamax*

Permanent Representative of IMF in Armenia Guillermo Tolosa said today that the inflation in Armenia will continue decreasing and will gradually return to the target interval, set by the Central Bank.

Mediamax reports that Guillermo Tolosa said: “We see quite fast decrease in inflation”.

IMF expects also stabilization of prices for Armenia’s domestic products, which is conditioned by stabilization of international prices. Taking into account this year’s favorable climatic situation, price reduction for domestic foodstuffs is forecasted.

### **GUILLERMO TOLOSA: TAX REFORMS IN ARMENIA GO IN RIGHT DIRECTION**

*April 15, Armenpress*

The process of tax reforms is ongoing in a right direction in Armenia, Head of the IMF Armenia Office Guillermo Tolosa said at a news conference today, adding that during the past 6 months important developments took place toward the implementation of reforms in the sphere.

He rated high the process of appealing the decisions of the State Revenue Committee. “When tax payer thinks that he was mistreated he may apply and effectively appeal these decisions,” Tolosa stressed. He also positively assessed the phenomena that hence the tax payers must present less tax reports to the tax bodies. “These are steps toward formation of more just tax system,” he said.

### **IMF PREDICTS 4.6% GROWTH OF GDP**

*April 15, Armenpress*

According to the recent forecasts of IMF, by the end of 2011 the GDP in Armenia will grow 4.6%, head of the IMF Armenia Office Guillermo Tolosa said at a news conference today. He said it is lower than during the pre-crisis years. “From 2010 tendencies of restoration of general economy have become noticeable,” Tolosa said, adding that with their forecasts the investments will continue

growing. "Taking into consideration the existing obstacles, the government must focus on adding the tax gathering," he noted.

The money gathered as a result of additional tax gathering must be directed toward applying of innovations in the economy as well as for the growth of the private sector. These events will smooth the social burden of the people and create an opportunity to make new investments in education and health spheres.

As a main way to promote economic growth he stressed the necessity of improvement of business environment. "These are the middle-term steps the government must undertake to reach positive results", Tolosa said.

## **STILL FLOATING EXCHANGE RATE**

*April 18, Lragir*

The Central Bank of Armenia is committed to the policy of floating exchange rate, said on April 14, Guillermo Tolosa, IMF Resident Representative in Armenia. As for certain dollar interventions that the CB has done on these days, Tolosa thinks sometimes it is necessary to interfere in the exchange rate, but only moderately, leaving the axis regulations to take place by market mechanisms.

Tolosa dwelt on the words of the Armenian president that the dram should be gradually devaluated during the year. He, in answer to a reporters' question whether stating so Serge Sargsyan does not intervene in the exchange rate, said that the president can have his own ideas on the exchange rate, like other people, but the exchange rate is set influenced by market factors.

Guillermo Tolosa dwelt on the price rises, noting that there are factors influencing on the price increase that are not under the CB jurisdiction. In this sense, he welcomed the steps to expand the power of the State Committee for the Protection of Economic Competition. According to Tolosa, in the first quarter of 2012, the price rise will return to the CB determined domain.

As for how and on account of what the price rise will decrease and return to that sphere, Tolosa said that they expect a slowing of international tendency of price increase, as well as the steps of the Armenian power will give results. IMF predicts Armenia will end the 2011 with a price rise by 9, 3% and a 4, 6% GDP increase.

## **THE IMF IS DISAPPOINTED**

*April 16, Haikakan Zhamanak (Translated from Armenian)*

Can You Suggest Better Solutions?

No matter what they do, nothing useful turns out . Serge and Tigran Sargsyans do everything they can in order our economy would flourish, they design various projects, deliver lengthy speeches every day; however everything fails again and again.

Whatever they do turns out to be against the simple and logical concepts of economic management, which have been developed throughout many centuries. Thus, during the recent meeting with business representatives, Serge Sargsyan promised to exempt from profit tax the businesses who will initiate innovative production in Armenia. During yesterday's press conference, the IMF

Representative to Armenia, Guillermo Tolosa has explicitly stated that the International Monetary Fund dislikes such approaches “The IMF does not like the concept of tax holidays. We think that it can lead to additional risks for revenue collection”, said he clearly.

Let’s speak about another topic, e.g. tax collections. Gagik Khachatryan, Chairman of the State revenue Committee has been constantly boasting through television about the reforms implemented by the SRC. Last year, he was proudly advertising monthly growth of tax revenues as a great achievement of the tax agency. However, it turned out that no one except himself believed that information. “The level of tax collection in Armenia has been extremely low. Unfortunately, still there is no evidence of closing the existing gap in this area, which proves that the share of informal economy in Armenia has not narrowed”, said Mr. Tolosa at yesterday’s press conference. He mentioned that in terms of GDP/tax ratio Armenia is below all other FSU countries, except Tajikistan.

This means that any remarks about tax reforms are nothing but mere babbling. Of course, people in Armenia know that very well, however it was a surprise that the representative of the International Monetary Fund would be so stern and unambiguous in stating that. “We don’t see any correct steps with regard to this problem”, said he, which means that “theatrical presentations” about implemented tax reforms, which are staged by the tax and customs authorities did not make any impression on the IMF.

What are the other “reforms” that have been implemented during the last period? The government decided to fix by law price ceilings in case prices on any goods grow by more than 30 percent within 30 days. At the first glance this looks as a really great decision. However, the IMF does not like it either. According to Guillermo Tolosa, “Such decisions often cause deficit of goods, higher level of smuggling and other negative developments. The administrative measures should be replaced by social security ones with the view to alleviating poverty in the country”, said Mr. Tolosa.

Let’s wait and see what other “reforms” are expected in Armenia in the near future.

## **IMF DISSATISFIED WITH THE SPEED**

*April 18, Lragir*

Guillermo Tolosa, International Monetary Fund /IMF/ Resident Representative in Armenia, on April 15 dwelt on the issue of reforms saying that they are moving in a right direction. But he underlined that the IMF is dissatisfied with the slow speed of reforms.

Guillermo Tolosa noted that satisfactory steps to reform are done with regards to the most problematic spheres of the economy – tax and customs services. He in particular positively assessed the creation of Tax activities appeal mechanism in the Ministry of Finance, as well as the creation of centers for customer service where taxpayers can get information not from the body that checks them. In this context, Tolosa pointed out the positivity of these steps that change the perception that the tax and customs services are unjust.

According to him, in Armenia no necessary steps to overcome the low level of taxation are made. Tolosa says only Tajikistan in the CIS is behind Armenia with its taxes-GDP correlation. According to him, the steps of the government to increase the level of taxation and the taxes-GDP correlation give no results and a new strategy and new approaches are necessary to be used.

In general, Tolosa noted that besides the tax and customs services, a target of reforms should become also the health, social and educational spheres. He underlined the importance of the improvement of the business sphere.

## **IMF PREDICTS LOWER INFLATION RATE IN ARMENIA**

*April 16, Aysor*

IMF Resident Representative in Armenia Guillermo Tolosa expects stabilization of prices in Armenia's domestic market.

"We predict that the inflation rate will decrease at fast pace, with world food and fuel prices falling. We expect domestic prices to stabilize and price growth to stop," G. Tolosa told reporters.

The IMF official also expects lower inflation rate thanks to favorable agricultural conditions.

## **IMF SAYS EXPECTS ARMENIA INFLATION TO SLOW**

*April 15, Reuters*

Inflation in Armenia could slow "quite rapidly" given more stable fuel and food prices on world markets and a recovery in domestic farming output, the International Monetary Fund said on Friday. IMF resident representative Guillermo Tolosa predicted 4.6 growth in gross domestic product (GDP) in 2011, as the landlocked country of 3.2 million people continues to recover from the effects of the global crisis. The ex-Soviet republic posted average annual growth of 12 percent from 2000 to 2007 but its economy, dependent on remittances and construction, suffered a sharp contraction in 2009 of 14.2 percent. It grew 2.6 percent last year. The government has struggled to control high inflation and rising poverty, but Tolosa commended efforts to rein in prices. The annual inflation rate stood at 11.5 percent in March, far exceeding the government's target range of 2.5-5.5 percent, although monthly inflation slowed to 0.8 percent in March from 1.9 percent in February. Inflation in 2010 was 9.4 percent. "We do see the inflation coming down quite rapidly in Armenia," Tolosa told a news conference. He cited stabilisation of fuel and food prices on world markets, signs of an improvement in the Armenian agricultural sector and sound monetary policy. "The interest rates have been increased, the fiscal deficit continues to be reduced and all macroeconomic frameworks continue to be very sound." Armenia's central bank raised its key refinancing rate on Tuesday to 8.5 percent from 8.25 percent in a bid to keep inflation under control. It was the third refi rate raise this year, after eight months unchanged at 7.25 percent. Tolosa said Armenia's economy was set to grow 4.6 percent in 2011, in line with the government's own forecast and up from 2.6 percent growth in 2010. He urged the government to improve tax collection and the business environment. Increased tax collection would create "more fiscal space to support private sector growth," he said. Armenia expects to bring its budget deficit down to 3.95 percent of GDP from 4.8 percent in 2010. The government is drawing on a \$410 million loan from the IMF and a \$500 million stabilisation loan from Russia. A recent Fund mission to Armenia is expected to present its conclusions to the IMF Board before a decision in June 2011 on disbursing a \$56 million tranche.

## **INFLATION EXPECTED TO STABILIZE IN THE SECOND HALF OF THE YEAR**

*April 15, Radiolur*

The International Monetary Fund (IMF) Mission visited Armenia March 31 to April 12. The visit aimed to assess the programs implemented within the framework of IMF-Armenia cooperation. Head of the IMF Office in Armenia Guillermo Tolosa presented the mission's final statement today.

The IMF considers that the reforms in Armenia proceed in the right direction, but it has certain reservations with regard to the pace of implementation, Guillermo Tolosa said. He hailed the steps taken in the field of tax and customs over the past six months.

According to the IMF representative, serious challenges still exist in the sphere, the most serious of which is the problem of tax collection. Another strategic challenge is the improvement of the business climate.

The IMF forecasts a 4.6% economic growth in Armenia by the end of 2011. The International Monetary Fund expects inflation to stabilize in the second half of the year. Guillermo Tolosa says it is connected with the trends of stabilization of international prices, greater expectations from the field of agriculture, and the fact that the government has correctly reacted to the inflation.