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Compiled by the IMF Armenia Office

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IMF SLIGHTLY REDUCES GROWTH PROJECTION FOR ARMENIA IN 2012

March 27, Radio Free Europe/Radio Liberty

A leading international lending institution has slightly reduced the growth projection for the Armenian economy in 2012, but expects the country's inflation to remain around the government's target.

At a press conference in Yerevan on Tuesday an International Monetary Fund (IMF) official summed up the results of a nearly two-week-long mission in Armenia discussing the Fourth Review of the Extended Fund Facility/Extended Credit Facility arrangements.

The Executive Board of the IMF is tentatively scheduled to consider completion of the review in May. Upon approval the IMF would disburse the fourth tranche of the loan for an amount of about \$56 million, bringing disbursements under the arrangement to about \$279 million.

Mark Horton, who has led the mission on its visit to Yerevan on March 14-27, said that "against the backdrop of weak external environment" the growth projection for Armenia for 2012 has been reduced to 3.8 percent from the earlier 4.0-percent level. The Armenian government expects the country's economy to expand by 4.2 percent this year.

"We expect that inflation this year will be right around 4 percent, which is the Central Bank's target," he added.

Horton warned that slow economic growth could spell risks for Armenia's projected budget revenues. "But I think there were some risks to the tax projections already in the baseline," he added.

In a statement at the conclusion of the mission the IMF official, in particular, said that overall macroeconomic conditions in Armenia have continued to improve, while external imbalances have moderated “through continuing fiscal adjustment as well as strong export and remittances growth”.

“But the external current account deficit remains relatively large and further adjustment is needed to reduce vulnerabilities,” he said.

“With continued fiscal consolidation over the medium-term, the authorities’ welcome focus on export growth and other business environment improvements, strong remittances, and exchange rate flexibility, the current account deficit is expected to continue to decline,” the IMF official concluded. [Top of the Document](#)

ARMENIA’S BALANCE OF PAYMENTS STILL PRETTY LARGE: IMF

March 28, ARKA

Armenia's balance of payments deficit in 2011 declined significantly, but still is quite large, head of the Armenia Mission at IMF, Mark Horton, said Tuesday in Yerevan.

He said despite the fact that the volume of remittances from abroad has grown almost to pre-crisis level and the improving structure of exports and strong performance of the mining industry, the current deficit of balance of payments remains high. He said therefore there is a need to revise the medium and long-term development policies.

According to Horton, it is difficult to assert unequivocally whether the Armenian national currency has lost or gained in value as it depends on the method of calculation and some other factors.

“We tend to monitor the long-term and medium-term exchange rate fluctuations,” he said.

Mr. Horton then commended the government efforts designed to improve the business environment. He expressed hope that these efforts will result in increasing investments. He said this should become the main task of the new government that will be formed following the May 6 parliamentary elections. [Top of the Document](#)

IMF REDUCES ECONOMIC GROWTH FORECAST FOR ARMENIA

March 27, News.am

The International Monetary Fund (IMF) says economic growth in Armenia will be lower than the expected 3.8%.

Speaking at the press conference in Yerevan, head of IMF mission to Armenia Mark Horton recalled that the December forecast said it would reach 4%.

He conditioned the lower growth by unfavorable foreign situation, in particular recession in Europe.

The 2012 economic growth was forecasted at 4.2% in the law on state budget.

The IMF is confident that the Central Bank of Armenia will be able to keep inflation at 4%. [Top of the Document](#)

INTERNATIONAL MONETARY FUND DOES NOT REGARD TAX AMNESTY AS EFFECTIVE STIMULUS FOR ECONOMY

March 28, ARKA

The International Monetary Fund (IMF) does not think that tax amnesty is an effective incentive for the Armenian economy in the long run, Mark Horton, head of Armenia Mission at IMF, said Tuesday in Yerevan.

"This measure may be effective in a short time span, however, the long-term amnesty has no positive impact on the economy", he said.

According to Horton, as a rule, tax amnesty is declared as a one-time measure, but it usually has a long-term impact.

"For this reason, the IMF is not a proponent of tax amnesties," he added.

The Armenian government passed a decision in late February to write off land and property taxes as well as penalties not paid before January 1, 2008. According to territorial administration ministry, the amount of unpaid land taxes accumulated from 1996 to January 1, 2012 is 16.4 billion drams, while the penalties for the failure to pay the taxes are 9.8 billion drams. The amount of unpaid property tax is 11.6 billion drams and 6 billion drams of penalties. [Top of the Document](#)

IMF REDUCES ARMENIA'S GDP GROWTH PROJECTION TO 3.8 PERCENT

March 27, ARKA

The International Monetary Fund predicts a 3.8% GDP growth for Armenia in 2012, which is lower of potential economic growth, head of the IMF Armenia Mission Mark Horton said at a news conference today in Yerevan.

"The IMF has recorded a slowdown in economic growth compared to December last year," he said.

He said the IMF has lowered its latest forecast that predicted a 4% economic expansion for this year. At the same time, he explained that the deterioration in the forecast is due to external factors.

"The latest IMF forecasts for Europe show a decline of economic growth," - he said.

He added that domestic factors in Armenia were relatively positive, with the exception of the construction sector, where the decline continues.

Talking about inflation, Horton said that IMF projection will be 4% (+ 1,5%), not differing with Central bank of Armenia forecast. He said despite the adverse impact of the environment, the overall macro-economic indicators in the country continue to improve. He said last year's GDP growth will be about 4.4%, due to significant growth in industry and services. [Top of the Document](#)

ARMENIA LIKELY TO GET FRESH TRANCHE OF INTERNATIONAL MONETARY FUND

March 27, ARKA

Armenia is likely to get a fresh tranche of the International Monetary Fund (IMF) in the amount of \$56 million by the end of May, head of the Armenian IMF Mission Mark Horton said today at a press conference following the visit of the IMF mission to Armenia.

Funds will be provided on the basis of the fourth and final inspection of Extended Fund Facility and the Extended Fund Facility programs.

"During the visit we have reached certain agreements with the government of Armenia, which will be presented to the IMF Board. Normally this procedure takes about 2 months after the visit, so the decision will be made by the end of May," he said.

After disbursement of this tranche, IMF overall commitment to these programs will amount to 181 million SDR (\$279 million).

Mr. Horton said that about half of \$56 million will go to replenish the reserves of the Central Bank and the rest will be provided to the ministry of finance for budget financing.

Both programs will enable Armenia to overcome the medium-term challenges and help preserve economic recovery rate, strengthen the balance of payments and ensure ongoing poverty reduction process. [Top of the Document](#)

PAYING FOR REFORMS ON PAPER

March 27, Lragir

Yesterday the representatives of the International Monetary Fund offered contradictory evaluations of the situation in Armenia. The evaluations were overall positive. There were such as expressions as "I'm delighted by the unique results".

In particular, Guillermo Tolosa, IMF Resident Representative, in answer to the question whether he trusts the reforms, said: "I would prefer if the progress in the fight against corruption and monopolies in Armenia was more evident." He also said that the current activities of the government are paving the way for further reforms. At the same time, he does not know when they will be implemented.

The IMF experts think the level of tax collections in Armenia is the lowest in the region.

Guillermo Tolosa said for the improvement of the business climate in Armenia it is required to enforce the laws adopted by the government and other state bodies, including tax and customs services. "I think they need to better their relation to businesses," he said.

Actually, if the democratic veil is removed, it will be possible to state that the IMF is dissatisfied with the fulfillment of Armenia's commitments. IMF states the most important factor is not there - there is no desire to change the economic system, to fight monopolies and corruption and to spur business. IMF says everything is done right on the paper but in real life nothing changes.

Anyway, the Armenian people do not need to hear such talks to see that nothing is changing in Armenia's economy either because on the eve of the parliamentary and presidential elections, the authorities do not want to earn enemies, or they do not have a wish to change. But it is still difficult to run businesses in Armenia though it is already easy to register it. Investments are not flowing into Armenia either, though the "Armenian Davos" periodically meets in Tsakhkadzor.

Reforms on paper became the business card of the Armenian authorities. High tech and new vocabulary are OK but they are like cellophane covering the nude of the Armenian oligarchy. This pellicle burst from the slightest touch.

Is IMF satisfied with such a situation? Most probably it is because IMF lends money for reforms, the money is not a present. Not IMF but the Armenian population needs to think about the effectiveness of the reforms which is already paying for the money borrowed by the government.

Why do we need to borrow for reforms which, even according to the IMF, remain on the paper while in real life they are just “paving the way” for further reforms? Who has so much money in Armenia to pay for reforms on paper? [Top of the Document](#)

STATEMENT AT THE CONCLUSION OF AN IMF STAFF MISSION TO ARMENIA

March 27, Lagir, Armradio.am, Armenpress, Haynews.am, Panarmenian.net, Oratertnews

An International Monetary Fund (IMF) mission led by Mr. Mark Horton visited Yerevan during March 14 –27 to conduct discussions for the Fourth Review of the Extended Fund Facility (EFF)/Extended Credit Facility (ECF) arrangements. At the conclusion of the visit, Mr. Horton issued the following statement:

“Despite a less supportive external environment, overall macroeconomic conditions have continued to improve. The economy is expected to have grown by 4.4 percent in 2011, driven by strong growth in the industry and services sectors. Inflation has significantly moderated to below 4 percent in February (year-over-year), supported by a sound monetary framework. External imbalances have moderated, through continuing fiscal adjustment as well as strong export and remittances growth, but the external current account deficit remains relatively large and further adjustment is needed to reduce vulnerabilities.

“Policy performance remained in line with the program during the second half of 2011, with all quantitative performance criteria met at end-2011. The fiscal situation considerably strengthened, with the overall deficit being reduced significantly in 2011 from nearly 5 percent in 2010. The authorities have displayed commendable prudence regarding the amounts and terms of new debt, including by focusing on a possible private sector-led solution for the ailing chemical factory Nairit. The government is on track to achieve a substantial increase in tax collections in 2012 which would help create fiscal space to address the urgent needs of supporting private sector-led growth and reducing poverty.

The government and Central Bank of Armenia also met or made substantial progress on all structural benchmarks under the program. Important technical steps regarding tax administration have been achieved, potentially laying the groundwork for a more modern, effective and business-friendly tax administration. There has also been progress in laying out tax policy strategies for the next few years, in further strengthening the inflation targeting framework, in consolidating financial stability and in bolstering the effectiveness of the provision of social services.

“Against the backdrop of weak external environment, the growth projection was reduced to 3.8 percent in 2012 with risks tilted to the downside. In light of expected absence of further pressures in international prices, inflation is expected to remain around the Central Bank’s target. With continued fiscal consolidation over the medium-term, the authorities’ welcome focus on export growth and other business environment improvements, strong remittances, and exchange rate flexibility, the current account deficit is expected to continue to decline.

“The mission reached understandings with the authorities on a policy framework for 2012 that could form the basis for the completion of the Fourth Review under the 3-year ECF/EFF arrangement. The

Executive Board of the IMF is tentatively scheduled to consider completion of the review in May 2012. Upon approval the IMF would disburse the fourth tranche of the loan for an amount of about US\$56 million, bringing disbursements under the arrangement to SDR 181 million (about US\$279 million).

"The mission met with Prime Minister Tigran Sargsyan, Minister of Finance Vache Gabrielyan, Central Bank Governor Arthur Javadyan, Minister of Economy Tigran Davtyan, Minister of Energy and Natural Resources Armen Movsisyan, as well as other senior government officials, representatives of the international community, the banking and business sectors, and civil society. The mission would like to thank the authorities and other counterparts in Armenia for their excellent cooperation." [Top of the Document](#)

IMF: "ARMENIA'S ECONOMIC GROWTH HAS SLOWED DOWN"

March 27, A1Plus

"Armenia's economic growth rate has slowed down due to globally unfavorable conditions, and instead of the 4% economic growth, there will be 3.8% growth in 2012," said Head of the International Monetary Fund's (IMF) mission in Armenia Mark Horton during a press conference today.

The mission delegates have been holding discussions on the final stage of inspection of the IMF "Extended Crediting" and "Extended Financing" Programs since March 14.

Mark Horton also informed that the IMF would most likely confirm the 56-million dollar loan to Armenia in late May. Half of it will be geared toward the strengthening of the Central Bank's reserve funds, and the other half will be provided to the Ministry of Finance as support to the budget.

IMF Permanent Representative to Armenia Guillermo Tolosa says the RA Government has worked seriously on the improvement of the business environment by facilitating the registration of businesses and introducing amendments to the legislation. However, according to him, there are several issues on the agenda that require urgent solutions.

"Our ultimate goal is to improve the business environment in Armenia, which will contribute to the quantitative and qualitative growth of workplaces in Armenia, and that in its turn will have a positive impact on the social situation," said Tolosa.

In his turn, Mark Horton mentioned that the government has made serious technical reforms that prepare ground for the improvement of the economic state in the future.

"The issue of improving the business environment has to be one of the greatest challenges of the government that will be formed after the elections," said Horton.

The IMF "doesn't like" taxing amnesties.

"The RA Government has never consulted with the IMF on declaring a land and property tax amnesty," mentioned Head of the IMF representation in Yerevan Guillermo Tolosa. According to him, the IMF doesn't welcome such steps.

Generally, based on the IMF's data, despite the unfavorable environment, the macroeconomic conditions in Armenia have improved in the past couple of months. In 2011, the economy grew by 4.4% thanks to the growth of industry and services.

The export growth that the government declared was due to the growth of industry and agriculture. However, according to the IMF Report, the mining industry is still the most impressive in this field and

the profits from export are linked to the growth of metal prices in the global market. [Top of the Document](#)

ARMENIAN PREMIER RECEIVES IMF DELEGATION

March 27, Tert.am

Armenian Prime Minister Tigran Sargsyan held a meeting on Tuesday with a delegation of the International Monetary Fund (IMF) led by Head of the IMF Mission to Armenia Mark Horton.

The sides discussed the priorities of Armenia's economic policy and economic development prospects.

Mr Horton presented the implementation of the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) programs and results of the IMF mission's visits.

He pointed out that the mission had proved a success, and all the tasks had been accomplished. Late last year, the program showed high performance, with excellent budget performance registered.

Mr Horton also welcomed measures to improve social budget performance. He noted efficient provision of reserves.

The IMF is ready to render further assistance to Armenia in meeting challenges, he said.

The Armenian government is happy about the high appraisals of the program made by the IMF mission. "During the next few years, our priority macroeconomic task will be to raise private investment levels, with our new industrial policy to facilitate the process," the Armenian premier said.

The head of the MF mission in Armenia welcomed the consistent reforms aimed at ensuring transparent administration at Armenia's State Revenue Committee, as well as social reforms.

In this context, Premier Tigran Sargsyan noted that pension reforms are among the government's priorities.

The sides also discussed a wide range of issues of bilateral cooperation. [Top of the Document](#)

MARK HORTON: THE RA GOVERNMENT DID NOT DISCUSS WITH IMF THE ISSUE OF LAND AND PROPERTY TAX AMNESTY

March 27, Panorama (translated from Armenian)

Today during the meeting with journalists Mr. Guillermo Tolosa, the IMF Resident Representative, while answering a journalist's question about the progress in Armenia in respect of corruption and monopoly challenges said the following:

«I would prefer to see a more significant progress. But I am the witness of major efforts in this direction, which prepare a background for good results in the future. If you ask me "when will it happen exactly?" I believe it's not we who should answer this question.»

The IMF mission leader Mr. Mark Horton when referring to the question related to land and property tax amnesty issue emphasized that the RA Government had not discussed such issue with IMF.

«We believe that amnesty globally shall be granted only once, and it must be short-term. However, experience evidences that it becomes a long-term exercise. This is the reason why IMF is not in favor of amnesty”, -Mark Horton said. He also stated that according to IMF assessments tax revenues in Armenia are quite low as compared with other countries in the region.

He seemed had difficulty to answer whether AMD is over-appreciated or under-appreciated. «This is a complicated process. We prefer to consider mid-term and long-term AMD developments, which are reflected in exchange rates”, - Mark Horton said.

MACROECONOMIC CONDITIONS HAVE CONTINUED TO IMPROVE IN ARMENIA

March 27, HHpress.am

All quantitative performance criteria met at end-2011

The mission of International Monetary Fund (IMF) led by Mr. Mark Horton visited Yerevan March 14-27 to conduct discussions for the Fourth Review of the “Extended Fund Facility” (EFF) and “Extended Credit Facility” (ECF) arrangements. At the conclusion of the visit, Mr. Horton and the International Monetary Fund (IMF) Resident Representative in Armenia, Guillermo Tolosa, had a meeting with journalists. The latter began the press conference in Armenian and read the Armenian-language statement of the mission of International Monetary Fund rather fluently.

According to the statement, despite a less supportive external environment, overall macroeconomic conditions have continued to improve in Armenia. The economy is expected to have grown by 4.4 percent in 2011, driven by strong growth in the industry and services sectors.

Besides, inflation has significantly moderated to below 4 percent in February (year-over-year), supported by a sound monetary framework. External imbalances have moderated, through continuing fiscal adjustment as well as strong export and remittances growth, but the external current account deficit remains relatively large and further adjustment is needed to reduce vulnerabilities.

IMF SPEAKS ARMENIAN

March 28, Orakarg ((translated from Armenian)

But is against the tax amnesty announced by the Government

While the RA Government usually discusses the fiscal and monetary policies with the International Monetary Fund (IMF), it has not discussed the land and property tax amnesty with the latter. The IMF does not support any tax amnesty.

Yesterday Mark Horton, Chief of IMF Mission to Armenia announced that although the use of a tax amnesty could be moderately positive it would not have a positive impact on paying taxes in the long term. Horton and Guillermo Tolosa, IMF Resident Representative in Armenia, hold a press conference to present the details of the IMF mission's visit from March 14-27. Tolosa of Uruguayan nationality, read his speech in Armenian.

The purpose of the IMF mission's visit to Armenia was to discuss the fourth review of Extended Fund Facility and Extended Credit Facility arrangements. “Despite a less supportive external environment, overall macroeconomic conditions have continued to improve. The economy is expected to have grown by 4.4 percent in 2011 driven by strong growth in industry and services sectors,” read Tolosa the IMF's release, not sounding quite Armenian.

He noted that the inflation has moderated to below 4 percent in February. According to Tolosa external imbalances have moderated, through continuing fiscal adjustment as well as strong export and remittances growth, but the external current account deficit remains relatively large and further adjustment efforts are needed to reduce vulnerabilities.

Risky Budget

According to Mark Horton against the backdrop of weak external environment, the IMF reduced growth projection for Armenia to 3.8 percent in 2012 from the previous 4 percent. "In light of expected absence of further pressures in international prices, inflation is expected to remain around the Central Bank's target [the budget inflation target is 4±1,5% - A.Ch].

The Government has planned to achieve the bulk (AMD 70 billion) of AMD 101 billion in additional budget revenue through the growth of 4.2 percent. To Orakarg's question whether there are any risks in budget execution given that the IMF has revised Armenia's growth projections, Horton replied that such risks did exist. According to Horton along with overall economic growth it is necessary to focus on the composition of growth and on how different sectors have contributed to it.

"This year the Government has implemented adequate tax reform measures and time is necessary to be able to see the results and how they meet expectations. I think that even without the lowering the growth projection there were some risks in the baseline scenario in terms of achieving revenues", said the IMF official. He said that both the Government and the IMF would monitor tax collection developments to make adjustments in the course of the year.

"In the IMF's assessment Armenia's tax collection is rather low compared to other countries in the region," Horton said.

It is noteworthy that in Armenia's 2012 target for the tax-to-GDP ratio is 17.36% compared to Georgia's 25%, Turkey's 23.5 % and Russia's 34 %.

Dram value is not clear

According to IMF's analyses from the last year the Armenian dram was overvalued by 15 percent, and this issue has been raised with the Armenian authorities in several discussions. To the question on how realistic is that value, Horton responded that it would be difficult to clearly say if dram is undervalued or overvalued as there are different calculation methods. "In looking at a currency exchange rate it is important to consider the period being reviewed, whether it is a month, or a quarter."

"We prefer to look at the exchange rate over the medium and longer term, as well as consider several other factors. Those include the current account deficit which has declined significantly but remains large. Even with stronger exports and remittances the current account deficit continues to be large from necessitating adjustments over the medium term," said the IMF representative.

On the Business Environment

Addressing the business environment in Armenia Guillermo Tolosa said that after his previous press conference the Government took a number of measures to improve the environment. "The Government is implementing serious technical work to improve the business environment, including for simplifying business registration, the legislative framework, and in the area of protecting competition. However the is still agenda to be addressed. This particularly refers to legal provisions that should be implemented by government agencies, including tax and customs authorities," he said. According to Tolosa there is room for significant improvement in terms of changing treatment of business people enabling them to engage in business activities. "Improvement in the business environment would lead to quantitative and qualitative increases in jobs," noted the resident representative in Armenia.

Mark Horton said that decisive steps are necessary for improving the business environment. "This is the biggest challenge for the next Government," he said.

Another \$60 million in May

During the visit to Armenia the IMF mission reached understandings with the authorities to be presented to the Fund's Board of Directors for approval. The IMF's Executive Board is scheduled to consider and approve disbursement of the next tranche of the loan under EFF/ECF in an amount of about US\$60 million by the end of May. \$30 million of the disbursed funds will be used for replenishing the CBA's international reserves and the remaining funds will be provided to the Government as a budget support loan.

Based on the decision of June 2010, the IMF should lend to Armenia a total amount of SDR 266.8 million (about \$400 million until 2013). Upon approval of the fourth tranche by the IMF Executive Board total disbursements under the arrangement would reach SDR 181 million (\$279 million).

DOES NOT BELIEVE THAT WOULD CHANGE

March 28, Armenian Times (translated from Armenian)

Guillermo Tolosa, IMF Resident representative in Armenia, unexpectedly spoke Armenian during the press conference held yesterday.

Although he pronounced Armenian words with considerable difficulty and said a rather short text, but it was enough to be honored with journalists' "bravo"-s and ovation. It is really surprising that having Portuguese nationality, he took the opportunity of learning Armenian after his arrival in Armenia and has obviously been successful in doing so. But let us move to the key topic.

An IMF mission visited Armenia from March 14-27 to conduct its regular reviews. And after conducting its review the mission found that its previous projection for Armenia's economic growth was extremely optimistic. Only in December the IMF projected that growth in Armenia would be 4.2 to lower it to 3.8 percent now. This was announced yesterday by Mark Horton, the key speaker of yesterday's press conference. Strangely, the IMF representatives were not in a very good mood. IMF representatives are distinguished by using every opportunity to dedicate dithyrambs to the current Government.

To tell the truth, we were expecting that yesterday's press conference would turn into the Armenian Republican Party's (HHK) election campaign, which, however, did not take place. It turned out that the IMF representatives assess the Government's recent decision to introduce amnesty negatively. Let us remind that last month the Government "wrote off" formerly accumulated land and property tax arrears of villagers. "I do not support tax amnesties," said Horton and added that the Government had not even discussed this issue with the IMF. [Armenia] falls behind other countries in the region in terms of the tax-to-GDP ratio.

The Government took "some technical steps" to improve the business climate, but "decisive steps are necessary to improve the business environment." "And we consider this to be a major challenge for the next Government," said Mark Horton. IMF representatives are not very optimistic about the execution of the 2012 budget. The RA Government announced that budget receipts in 2012 would be 100 billion more than the previous year, of which 70 billion would be achieved from the economic growth of 4.2 percent. The IMF, as we already mentioned, has revised the growth projection downward and naturally, for this reason only, the budget could be under-executed. But this is only part of the problem. Yesterday it became clear that the IMF experts were convinced that even if economic growth were to be achieved as projected by the Government, the budget would hardly be executed.

These and other negative assessments presented yesterday in a quite diplomatic manner were a surprise. Therefore we decided to ask a direct question and find out whether the once praise signers of the RA Government weren't going to turn the press conference into HHK's campaign as they had always done. And we asked Guillermo Tolosa the following question: "Corruption has not declined, monopolization of the economy has increased and emigration continues during your term in Armenia. You are also familiar with governing party's- HHK's- election motto: "Let's believe to change". Do you believe that they would change?

"During the two years after my arrival I would have liked more progress to have been achieved in terms of reduced corruption and monopolies. A lot of technical work has been undertaken to lay the groundwork for achieving results. And it is not for us to tell when exactly there will be results," said Tolosa in response to our question. In short, if we remove diplomatic emphases from what he said, we will be left with the following: he does not believe that they would change. Had he said that he believed, we could have proposed HHK to recruit him to their election staff, particularly since he speaks Armenian. But in fact he does not believe, yet. Although it cannot be ruled out that after the official launch of the campaign he would suddenly start to believe.