

Speech by Teresa Daban Sanchez, IMF Resident Representative in Armenia during the third Annual International Pension Conference “Opportunities, Challenges and Prospects” organized by Pension System Awareness Center (PSAC) Fund and the Ministry of Labor and Social Issues, with the support of USAID/PRIP and USAID/FED

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Good Morning Excellences and appreciated guests. I am very grateful for the opportunity to participate in the **Third Annual Pension Conference**.

The International Monetary Fund (IMF) and Armenia have a long-track record of constructive cooperation, during which the IMF has provided Armenia with financial and technical assistance and policy advice.

In the context of this cooperation, the IMF has supported Armenia to address challenging situations, which Armenia has overcome with success. First, the IMF supported Armenia’s efforts to transition towards a market-based economy, many years ago. Second, more recently, we supported Armenia’s successful recovery from the global crisis.

Despite these achievements, significant challenges remain. Growth and inflation remain volatile. Real interest rates are high. Financial markets are under-developed and highly-dollarized. Business climate remains challenging. Poverty and migration continue to be a source of concern. The IMF will continue supporting Armenia’s efforts to overcome these remaining challenges with a new three-year arrangement currently under consideration by our Board of Directors.

In the context of our cooperation, the IMF has always supported Armenia’s efforts to implement a new pension system. However, country experience shows that this is a difficult, complex, and challenging task, as it takes time and energy for interested parties (government, opposition, technocrats, IFIs, people) to explain and to understand the rationale and benefits behind the reform.

In that sense, this morning, I would like to emphasize three positive aspects of the pension reform in Armenia (building in my own cross-country experience). These three aspects are Strategy, Benefits and Safeguards

About the **strategy**, I would like to commend Armenian people and Armenian authorities for the way in which this pension reform has been conducted.

It has been based on (i) holding comprehensive consultations, domestically and internationally;

It has been based on (ii) drawing lessons from the experiences of other countries that implemented this type of reforms time ago; and

It has been based on (iii) putting in place a sound legal and institutional framework based on best practices.

We believe that pension reform in Armenia has established a “blueprint”, an example, on how reforms should be debated, evaluated, and implemented. [I agree with the US Ambassador that further communication and educational efforts are needed, and we encourage the authorities to work in that direction]. But, still, the pension reform has established a “blue print” that the authorities could roll out to other sectors in which reforms continue to be needed.

On the **benefits**, the implementation of the new pension system would imply deep institutional, fiscal and financial changes, which will help address Armenia’s remaining challenges:

First, the pension reform has a clear pro-poor orientation. It envisages different contributions according to different income levels and has a clear goal to ensure a future income for the elderly, the population segment with the largest poverty incidence.

Second, it will help reduce the burden that future pensions would pose on the budget, increasing fiscal space for other important expenditures, such as education, infrastructure, and for reducing public debt.

Third, it could also help to reduce Armenia's shadow economy, as workers would prefer to be paid under formal contracts that could be subject to pension contributions.

Fourth, finally, the collective effort of all Armenians saving together will help mobilize long-term savings. This would translate into lower interest rates and higher investment and employment.

Regarding **safeguards**, the new system includes important provisions to ensure the system is transparent and safe:

- 1) **Individual accounts.** Citizens could see the direct link between their savings and the value of their future pensions. As cross-countries experience shows, individual accounts help people to visualize that the accumulated funds, their savings, are their own personal assets and not a tax or property of the state.
- 2) **Specialized and secure management.** The management of long-term savings requires experience and specialized knowledge. Under the new system, the management will be entrusted to two well-experienced asset managers, with strong reputation and long-track record. The government has guaranteed that pensioners will earn a positive real (after inflation) rate of return. In addition, a guarantee fund will be created to insure against operational risks and mismanagement.
- 3) **Strong supervision and prudential framework.** The asset managers have to work under a highly-regulated and supervised framework, under the Central Bank of Armenia's oversight. They also have to conduct their investment under strict limits designed to protect people's savings from risks.
- 4) **Robust administration.** This includes the establishment of an independent central depository and separate custodians, which are also subject to government and central bank regulations and monitoring.

These are issues that will be discussed in depth today.

In conclusion, we believe this a good reform for Armenia.

I would like to express our continued support for its successful implementation .

And again, I would like to commend the Armenian authorities and the Armenian people for their efforts and energy in implementing this reform.