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## Yerevan reports double-digit GDP for 2007

By Emil Danielyan  
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Armenia's economy appears to have expanded at a double-digit rate for the sixth consecutive year in 2007 despite the unresolved conflict over Karabakh and the resulting high cost of the country's transport communication with the outside world. Official statistics show its gross domestic product increasing by 13.6% to about \$9 billion in the first eleven months of last year.

Economic growth continued to be primarily driven by the booming construction and services sectors, where output was up by approximately 20% from the same period in 2006. Other sectors such as agriculture and energy also posted major gains. The Armenian economy has also been greatly helped by rising large-scale remittances from Armenians working abroad. The money they send to their relatives not only boosts consumption but also allows Armenia to finance its huge trade deficit. The deficit jumped by as much as 70% to a new record high of \$1.8 billion in January-November 2007, due to a surge in imports.

While admitting the uneven distribution of the benefits of the double-digit growth, the Armenian government maintains that widespread poverty in the country has decreased significantly in recent years. According to government data, the proportion of Armenians living below the official poverty line dropped from 50% in 2001 to 27% in 2006. The government has pledged to help reduce the poverty rate to 12% by 2012. Its critics question these figures, saying that the poverty line is set too low and does not take account of in the increased cost of living in Armenia.

However, Western lending institutions find the figures credible. 'Over this 12-year period, Armenia has achieved spectacular income growth ... and poverty reduction,' the World Bank said in a November 2007 report that reviewed the results of its lending programs for the South Caucasus state. The International Monetary Fund also noted 'good progress' in poverty reduction in Armenia as it disbursed a fresh \$5.2 million loan to Yerevan later in November. 'The medium-term [economic] outlook is positive, with a favorable outlook for investment,' the IMF's deputy managing director, Murilo Portugal, said in a statement posted on the fund's website ([www.imf.org](http://www.imf.org)).

Meeting with Armenia's leading businessmen on December 28, President Robert Kocharian said the double-digit growth rate can be sustained in the next few years. (Statement by the presidential press service, December 28). His government, though, set more modest growth targets of between 8% and 10% in its five-year program approved by parliament in June. The program commits the government to implementing 'second-generation reforms' that Western donors say are essential for ensuring continued growth. Prime Minister Serge Sarkisian and other government officials have said those reforms will result in better governance, 'unconditional rule of law,' less government corruption, and fair business competition.

There is widespread skepticism about the seriousness of those pledges, which was only reinforced by the Kocharian administration in the past year. In October 2007 Kocharian, for example, controversially dismissed Pargev Ohanian, a judge who had sensationally acquitted two businessmen in a rare court ruling that went against the government's wishes. The businessmen, who ran a leading Armenian coffee packaging company, had been arrested and charged with fraud in 2005 after publicly accusing senior customs officials of corruption. Armenia's Court of Appeals overturned their acquittal and

sentenced them to six and two years in prison in November. The developments made a mockery of the government's stated efforts to combat corruption and boost judicial independence in the country.

The ruling regime also made it clear that it will not tolerate expressions of political dissent by wealthy entrepreneurs dependent on government connections. One of those tycoons, Khachatur Sukiasian, has been facing a government crackdown on his businesses since September 2007, when he voiced support for former President Levon Ter-Petrosian, a leading opposition candidate in Armenia's upcoming presidential election. There were also no visible government efforts to liberalize lucrative forms of economic activity, notably imports of fuel and basic foodstuffs, that have been effectively monopolized by 'oligarchs' close to Kocharian and Sarkisian. In fact, Kocharian denied the existence of such monopolies at the December 28 meeting, saying that other businesspeople are not venturing into the imports business for purely 'psychological' reasons.

The obvious lack of fair competition might explain why the prices of imported products such as wheat and cooking oil went up considerably in the fourth quarter of 2007 despite the continuing strong appreciation of the national currency, the dram. The price hikes pushed up inflationary pressures on the economy, forcing the Central Bank of Armenia (CBA) to raise its refinancing rate twice. Even after that the CBA forecast that consumer price inflation will hit 7% in 2007, well above the Armenian authorities' target rate of 4%.

The tightening of the CBA's monetary policy was in line with the IMF's recommendations. The fund also continued to press for further improvement in Armenian tax collection. The government's tax revenues soared by 35% in January-November, allowing it to meet record-high spending targets set by the state budget for 2007. (Budgetary report by the Armenian Ministry of Finance and Economy, December 28). Still, those revenues made up only 16% of GDP. The proportion is very modest even by ex-Soviet standards and highlights the scale of widespread tax evasion in Armenia. The government has for years been promising to tackle the problem in earnest. But its declared crackdowns on tax fraud have so far mainly targeted small and medium-sized enterprises, with many large and far more profitable companies owned by government-linked individuals continuing to underreport their earnings.

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