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# Speed Of Social Reforms Lags Behind Rate Of Macroeconomic Reforms In Armenia

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The implementation of social reforms will make an important part of Armenia's socioeconomic policy in 2008-2009. Today the speed of social reforms lags behind the rate of macroeconomic reforms.

The government has taken a lot of measures to direct the economic growth at raising the population's standard of living. However, strategic investments are necessary in order to deal with the tendency of growing inequality in the society and the problems of the education and health sectors. These conclusions were presented in the Economic and Social Survey for Asia and the Pacific 2008 of the UN Economic and Social Commission for Asia and the Pacific (UNESCAP).

The survey reminds that in 2007 the Armenian government adopted a 5-year political program of poverty reduction, which envisages reducing the poverty level from current 30% to 12% in 2012. It is said that the number of people with low incomes on the verge of poverty declined from 55% in 1988 to 34% in 2005. The Gini coefficient for measuring income inequality, in which high values show large inequality in income distribution, made 44.42 in Armenia in 1996 and 33.8 in 2003. Nevertheless, income inequality continues to be a big problem in the country.

According to the survey, in 2007 Armenia registered a two-digit economic growth for the sixth consecutive year and was among the most rapidly developing countries in the world. Armenian GDP grew by 13.8% in 2007, with construction, agriculture and services being the main factors of GDP growth in the country. Construction growth increased thanks to a considerable growth in construction of industrial, residential and office buildings. The growth of economy included such services as trade and communication. In 2007, the growth of agricultural output made 9.6%, with wheat harvest doubling and reaching 450 thousand tons.

The survey notes that in 2008-2009 Armenia gives priority to management improvement, poverty reduction, as well as to increasing the tax collection (by abolishing tax exemption) and improvement of small and medium business environment. It is envisaged to ensure 10% GDP growth in 2008 and at least 8% growth in 2009.

According to the survey, in 2007 the Armenian state budget registered a surplus equivalent to 0,1% of GDP at the expense of a growth in tax collection. However, taking into account expenditures on social programs and infrastructure development, it is expected that by 2009 the budget will again have a deficit of 2.6%. State revenues may increase in 2008-2009 thanks to the amendments to the tax legislation and tax and customs administration improvement, but tax collection will continue to be serious problem in Armenia.

Besides, it is said in the survey that monetary and credit policies in North and Central Asia, as well as in Armenia pursued the goal of suspending inflation and preventing a large growth of the real exchange rate. The governments of these countries tightened the monetary and credit policy by increasing the deposits of their governments and banks, regularly raising the initial interest rates and refinancing the central banks. In particular, the Central Bank of Armenia raised refinancing to 5.75% and increased the use of such internal instruments as sale and repurchase (repo) agreements.

The survey notes that the growth of consumer prices in Armenia increased from 2.9% in 2006 to 4.4% in 2007 as a result of increasing food prices, further rise of salaries and household incomes. This rapid monetary expansion and high import prices resulted in considerable inflation in Armenia. In the last quarter of 2007 the Armenian dram appreciated by about 10% against the US dollar. The appreciation of the dram causes concern of those households whose incomes depend on remittances from abroad.

It is noted that although exports of goods from Armenia increased by 9.1%, the trade deficit notably grew in the first nine months of 2007 - from 826 mln USD in 2006 to almost 1.4 bln USD. Imports grew by 1.9% to 2.2 bln USD in the first nine months of 2007 at the expense of the import of ores, cars and equipment for construction programs. The deficit of current accounts grew from 78 mln USD (equivalent to 1.9% of GDP) in the first nine months of 2006 to 327 mln USD (5.7% of GDP) in the first nine months of 2007 at the expense of the growing trade deficit.

The UNESCAP experts indicated that remittances from abroad have become an important source of foreign financing for Armenia's economic development. In 2007 these remittances represented a considerable investment in the socioeconomic sphere. Remittances from those, who left abroad for temporary and permanent work, amounted to 1.32 bln USD (equivalent to 14% of the country's GDP) in 2007. The foreign investment inflow continued to play a major role in Armenia's economic development and modernization in 2007. The foreign investment inflow made 351 mln USD in Armenia in first nine months of 2007 - against 202 mln USD in the same period of 2006. Considerable part of growing foreign investments was allocated to communication and municipal sectors and for financing of the deficit of the country's current account.

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