
IMF Approves Final \$5.4mln Disbursement To Armenia Under PRGF Arrangement

ARKA - 20/5/2008

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and final review of Armenia's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables the release of an amount equivalent to SDR 3.32 million (about US\$5.4 million), bringing total disbursements to the full amount of SDR 23 million (about US\$37.3 million) under the arrangement.

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said that Armenia's adherence to prudent macroeconomic policies and the progress made in structural reforms have contributed significantly to its strong performance under its third PRGF arrangement. A marked reduction in poverty has been achieved in a high-growth and low inflation macroeconomic environment. "Strong remittance and foreign direct investment inflows have dampened the impact of rapidly rising imports on the balance of payments. The medium-term outlook remains positive in view of favorable investment prospects," he said.

The IMF official pointed out that continued sound fiscal and monetary policies remain key to maintaining macroeconomic stability and external competitiveness, against the background of large-scale foreign exchange inflows and upside inflationary risks. A tighter-than-budgeted fiscal stance is warranted for 2008 as this would deliver welcome support to monetary policy in keeping inflation expectations well anchored.

The existing monetary policy framework, based on a flexible exchange rate, remains the best option for Armenia., Portugal said. "The authorities' timely monetary policy actions over the past year have demonstrated the authorities' commitment to price stability and helped contain inflationary expectations despite strong headwinds from higher world food and energy prices," he said.

Portugal stressed that strengthening the capacity for fiscal policy analysis will be important for improving the effectiveness of fiscal policy and helping maintain fiscal discipline. Increasing revenue collections in a transparent and nondiscretionary manner will also be crucial, in view of the need to improve the country's infrastructure, reduce poverty, and improve the business environment.

The authorities intend to press ahead with their structural reform agenda to remove remaining bottlenecks to broad-based growth and to safeguard competitiveness.

"Future reform efforts will appropriately focus on deepening productivity-enhancing structural reforms, notably by reducing the cost of doing business, boosting domestic competition, diversifying the economy, and discouraging participation in the shadow economy," Portugal said.

He pointed out that the IMF welcomes Armenia's interest in continuing its close cooperation with the Fund after the current PRGF arrangement expires in May 2008. Over the last 18 years, the IMF has allocated \$360mln to Armenia, with 80% of the loans carrying an annual interest rate of 0.5 percent and being repayable over 10 years with a 5½-year grace period on principal payments.
