
Murilo Portugal Assesses Armenia's Economic Performance As Very Strong

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The Executive Board of the International Monetary Fund (IMF) has approved a three year, SDR 9.2 million (about US\$13.6 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) for the Republic of Armenia to support the government's economic program through 2011. The decision will enable the Republic of Armenia to draw an amount equivalent to SDR 1.31 million (about US\$1.9 million) from the IMF immediately.

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"After the successful conclusion of its third PRGF-supported program in May 2008, Armenia's economic performance has remained very strong. High growth has been maintained and has contributed significantly to the marked reduction in poverty. Inflation has increased in the wake of rising international food and fuel prices and growing domestic demand pressures, although it remains lower than in other CIS countries. Adherence to prudent macroeconomic policies and the progress made in structural reforms has helped to achieve these results.

"The worsened global macroeconomic outlook has increased uncertainty, but Armenia is in a strong position to withstand the impact of the global economic downturn. A gradual deceleration of growth in Armenia may help dampen inflationary pressures. It may also contribute to reducing the external current account deficit, which has increased on the back of rising imports and sluggish exports, despite strong remittance inflows. Medium-term prospects, although highly uncertain, remain benign in view of favorable investment opportunities.

"Continued sound fiscal and monetary policies remain key to maintaining macroeconomic stability. Prudent policies are necessary to reduce the current macroeconomic imbalances. Current challenges highlight the need to strengthen policy frameworks. The floating exchange rate regime continues to be the best option for Armenia, and the authorities are encouraged to complete the transition to full-fledged inflation targeting. At the same time, building capacity for fiscal policy analysis will help strengthen the budgetary process and enhance fiscal policy credibility, increasing its effectiveness as a demand management tool. In addition, the authorities must be prepared to adjust swiftly to a rapidly changing economic environment. A weakening external environment might also increase Armenia's financing needs and possibly call for an early review of the situation.

"Improving external competitiveness requires a renewed push for structural reforms. Focus should be on enhancing productivity, improving the business environment, and boosting domestic competition. In this regard, the completion of the unfinished tax policy and administration reform agenda is particularly important. These reforms would significantly reduce the cost of doing business, particularly in the export sector, and contribute to leveling the playing field, ultimately promoting private sector development," Mr. Portugal said.
