
Tigran Sargsyan : Current Fiscal And Monetary Policy Will Not Suppress Growth

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Interview of Armenian prime minister Tigran Sargsyan with "Noyan Tapan" agency

Mr. Prime Minister. In one of your speeches you said that in order to curb inflation the government intends to increase budgetary revenues and reduce expenditures. In this regard we ask you to answer the following questions:

1. What have been the dynamics of revenues of the state budget this year, especially in the past two months? Is there any dependence between the dynamics of budgetary revenues and the tax and customs administration reforms being implemented by the government?

Tigran Sargsyan: The total amount of fiscal revenues in the first half of 2008 made 284.4 billion drams (app. 939 million U.S. dollars), which is 36 percent more than in the same period of the last year. And collections have been growing from month to month, whereas in January the fiscal revenues made 39.0 billion drams, they grew to 54.6 billion in May and 50.5 billion in June. The overall collections of the last two months are thus 105 billion AMD, which is 27.8 billion more than the same period a year ago.

So, revenue growth rate is maintained, and it is evidently due to improvement in tax and custom administration. As for the dependence of budgetary revenue dynamics on the government reforms, in our opinion, it will have its impact. Nevertheless, it is early to translate our assessment to the language of figures.

2. As regards expenditures, so far a prospect of their growth rather than reduction has been seen, as three new standing committees are being formed at the National Assembly and a new ministry - at the government. Under such conditions, at the expense of what items can the government reduce its expenditures? Is it possible to use a restriction at the expense of investment (infrastructural) expenditures?

Tigran Sargsyan: The expenditure restriction policy means that all other things being equal, restrictions on their growth should be used.

As for the three new standing committees to be created at the National Assembly and a new ministry at the government, it will not be done by means of reducing expenses in any other sphere.

It should be mentioned for comparison that according to the already developed 2009-2011 draft medium-term expenditure program of the RA, the growth of expenditures on state government bodies (along with the indicated changes) makes 10.8% in conditions of 15.2% growth of overall expenditures, while the growth of expenditures in branches of the prioritized social sector will be noticeably greater: it will make 22.1% in education, 21.7% in health care, and 16.3% in social protection.

3. The above mentioned political line of the government and the gradually tightening monetary and policy of the Central Bank of Armenia (CBA) may have a negative impact on the economic development of the country. By the data of May, there was almost no growth in industry and agriculture. Does the government expect a change in GDP growth envisaged for this year?

Tigran Sargsyan: The growth in industry and agriculture in January-May 2008 was not high, however, construction and services played a great role in ensuring an economic growth which made 9.8% in the indicated period. Taking into account also the fact that in Armenia, usually only about 22% of the gross domestic product is produced in the first five months, while the economic growth trends are accelerating by the end of a year, the existing trends show that the 10% economic growth level, which was envisaged for 2008 and forms the basis of the state budget program, is within reach - taking also into consideration the relatively restricting nature (anticipated for the second half of 2008) of the fiscal and monetary policies.

As regards the alternative between inflation and economic growth, it is no secret that in conditions of accelerating inflationary rates which in turn increase the expectations of future inflation, the long-term economic growth is virtually endangered. International experience shows that in such a situation countries set anchoring high inflationary expectations as a priority task, and imply restraining fiscal and monetary policies so that they will ensure - through achieving a macroeconomic stability - an environment necessary for a long-term economic growth in the future. The Armenian government and the CBA have adopted such an approach but they attach importance to the scale of restraining policies in this issue: they should not result in a considerable decline of GDP growth rates. In particular, with respect to the fiscal policy, it was estimated that in 2008 the proposed inflation curbing policy will not, hinder economic development, while freezing inflation expectations, and not to feed inflation (and inflation expectations) with an excessive demand growth.
