

RA Prime Minister Tigran Sargsyan's Statement at Presentation of FY 2009 State Budget to RA National Assembly

Honorable President of the National Assembly,

Dear Members of Parliament,

In accordance with Article 90 of the Constitution of the Republic of Armenia, the Government of the Republic of Armenia is hereby submitting to the National Assembly the FY2009 State budget bill. This bill is based on the government program as approved earlier this year by the National Assembly, which was developed based on the key provisions of the RA national security strategy and poverty reduction strategic paper, as well as on the electoral programs of the RA President and the coalition parties and the basic provisions of the political agreement.

I have already had the opportunity to present the State budget's main logic and underlying principles, as well as to address the four key factors necessary for overcoming the financial crisis. Now, I would like to concentrate on such important aspects of the Government's economic policy as are standing out against the background of continued global economic and financial downturn.

GLOBAL ECONOMIC AND FINANCIAL CRISIS

The global financial crisis manifests itself in a sharp decrease of financial assets, liquidity, financial institutions' capitalization and total lack of confidence. Market participants' behavior is largely influenced by the bankruptcy of hundreds of companies and a breakdown in the work of developed countries' financial markets.

For the first time in history, the economics of the United States which is a key global actor, recorded a clear inflow of investment to mark the end of the dollar-triggered economic expansion. This in turn escalated the crisis in almost all the developed financial markets depriving them of short-term funds.

Fostered by an imperfect and unduly sophisticated financial system, the financial "bubbles" that had been formed in the housing market broke out revealing a huge gap between the financial and real sectors. By means of the securities market, the financial sector necessitated making appropriate corrections in the corporate sector. This was just the powder-keg to explode the real sector. At the same time, numerous inefficiencies were revealed as to the governance, regulation and control of the financial and economic systems worldwide.

We can still witness short-term actions and interventions aimed at extinguishing the fire. Today G-7, G-8, G-20, the IMF, the World Bank and other global actors are discussing the question of creating new management institutes and mechanisms in line with the new world under formation.

What are the first lessons of this global crisis?

- Close monitoring of the financial sector and availability of universal tools for risk exposure;
- Strict adherence to transparency rules, including transparency in and control over the functioning of major enterprises;
- Application of sanctions proportionate to risks;
- Developing a single methodology for risk detection in the real and financial sectors;

- Necessity in consolidation of oversight authorities;
- Design of new principles applicable to monetary and fiscal policies;
- Inadmissibility of any failure in macroeconomic stability;
- And what is more important: availability of social cohesion and confidence-building measures.

Thus, the global financial crisis has brought about:

- a) a large-scale outflow of short-term resources
- b) the reduction and deferring of investment programs in developing countries
- c) lack of confidence between market operators

The global financial crisis can lead to:

- a) lower pace of global GDP growth
- b) job cutback and growing unemployment
- c) a decrease in the cost of raw materials and some products on global markets

Those measures implemented jointly with the CBA allowed us to withstand the first tide of the global financial turmoil. Now we must be prepared to meet the fresh waves of the global economic crisis.

RISKS

The global economic crisis may give birth to the following risks for the Republic of Armenia:

- a fall or delays in direct private investment
- reduction of remittances from abroad
- provisional freezing of mining industry until a new rise in the cost of raw materials
- postponing of specific construction projects and investment programs in the building sector

As a result, we may face:

- decreased consumption
- worsened balance of payment
- emergence of negative expectations with would-be lenders

The worldwide practice shows that a new phenomenon can emerge under these circumstances, namely: market participants' willingness to overcome difficulties on their own will expand "the shade" in economy by fostering corruption risks.

You may understand that the foregoing is immediately tied up with the national security strategy of the Republic of Armenia.

In these conditions, the Government will try to:

- provide for greater macroeconomic stability
- ensure financial sector stability
- identify and introduce additional incentives with a view to meeting the projected growth targets, which will help:
- raise consumption

- boost local industries
- improve the balance of payments

HOW CAN THESE OBJECTIVES BE MET?

The global financial and economic crisis is a kind of self-regulatory mechanism which *inter alia* will help smooth the existing huge discrepancy between the developed and developing worlds. While creating specific difficulties, it helps developing countries to expand their potentialities and reveal their own competitive assets.

Against this background the State will have to play a more pro-active role in economic processes.

Economic growth is supposed to be largely promoted by the implementation of pan-Armenian projects, based on the public-private sector partnership principle as stated by the President of the Republic, including the building of a new nuclear power plant and an Iran-Armenia railway line, as well as the creation of a pan-Armenian bank and investment/mortgage funds.

Diverging real and potential GDPs will arouse deflationary trends which in turn may create favorable conditions for the conduct of expansive policies. The role of the RA State economic competitiveness protection commission will be highlighted amidst low price elasticity in Armenia. In particular, it will have to eliminate any ill-grounded discrepancy between worldwide and domestic market prices, address incidences of market share misuse and so on. We will be backing any initiative on the part of the RA State economic competitiveness protection commission.

To achieve the above-stated goals and mitigate the impact of the global crisis, the Government will take the following steps in addition to the actions specified in this State budget bill:

1. With a view to promoting growth in the real sector, the Government will support the existing and emerging enterprises by encouraging enhanced work efficiency and job creation efforts. This implies:
 - provision of State guarantees under additional financial resources
 - use of subsidizing tools
 - State participation in the equity of those enterprises meeting the Government-set criteria.

In order to minimize the risks stemming from black economy and corruption, a mandatory audit accounting institute will be introduced for those enterprises having more than 500 million-worth of assets or annual turnover.

2. To promote SME development, the Government will:

- ensure broader access to sizeable lending available from the World Bank, the EBRD and the Asian Bank (talks are underway which will be completed by the end of this December with about USD 350 MN-worth of loan resources negotiated to that effect).
- Simplify tax procedures. In particular, it will abolish the rule on the mandatory accounting for enterprises with less than AMD 100 MN-worth of turnover and will introduce a system of flat taxing.

3. The Government will back the preparation and design of new business programs by means of corresponding budget allocations. A commission on innovational

- projects is going to be established by the Prime Minister to deal with the preparation and announcement of business project competitions.
4. To shape a more business-friendly environment in Armenia, the Government is going to set up free economic zones at Zvartnotz international airport and in Gyumri. To this end, we will get technical assistance from the United States for the Gyumri project. As far as Zvartnotz airport is concerned, a conceptual agreement has already been reached with the future concession holder.
 5. The Government will conclude relevant agreements with the European Union and the United States to provide for favorable conditions for export (all necessary appointments have already been made and a preparation task force is due to leave for the USA).
 6. All other conditions being equal, Armenian product and service suppliers will be privileged during public procurement transactions.
 7. Thousands of our crisis-hit compatriots in the CIS countries are seeking reliable refuge for their savings and investment opportunities. It is our duty to orientate them by creating better conditions for the placement of their savings with the Armenian banks. Today Armenia's banking system is seen as a safe haven for individual savings which is in full harmony with our striving to become a financial center.
 8. Assisted by the World Bank, additional steps will be taken to introduce an efficient system for the management of State reserves. Under the same program, we are going to ensure adequate level of food security and strategic reserves.

All these actions will be subjected to clear-cut rules. These rules will be open to the public-at-large with a possibility of public control. High-quality international and local expertise will be involved in these activities.

SECTORAL PRIORITIES

The following measures will be taken to enhance the strength and resisting capacity of Armenia's economy:

- implementation of new agricultural projects based on the principle of public-private sector partnership
- formulation of new incentives for the IT sector
- implementation of AMD 77 BN (USD 250 MN)-worth of construction activities in the disaster zone, extra funding for school-building projects
- implementation of new road-building projects, including the construction of the Asian Bank-supported Meghri-Batumi highway
- implementation of new projects of regional importance in the energy sector

SOCIAL SECTOR PRIORITIES

1. Full and timely implementation of social sector commitments
2. Sharp increase in the level of public works
3. Availability of affordable housing
4. Shaping of a broadly accessible mortgage system
5. Implementation of demographic programs.

It should be noted that these measures just overlap with the ones carried out in most developing countries. They are to be realized with the assistance of the World Bank and the IMF. GoA-World Bank talks over USD 800 MN-worth of lending are nearing completion. The National

Assembly will be reported back on a regular basis. We shall come up with new legislative initiatives if necessary.

In conclusion, I must state that we will be abiding by the following key principles in 2009:

- Order and discipline in everything
- Transparency and public control
- Timely implementation of complex measures

Our motto is "From global thinking to specific action."

Thank you.