

**To meet its development challenge Armenia needs a stronger and better
capitalized World Bank**

Armenia, as many other developing countries, is weathering the storm of the economic contraction that was unleashed by the global financial crisis. The crisis was not of our making, but our economy has been hit by the contraction in trade, foreign direct investment, and remittances. Thanks to our prudent policies, our economy entered the crisis with some strengths: A well-capitalized, liquid, and well-supervised banking system, a low level of public debt, and a small fiscal deficit. Without these advantages, our economy would have been even more severely affected by the crisis, and our gains in reducing poverty would have been in jeopardy.

Our response to the crisis has been swift and decisive: We mobilized financing from our development partners—the World Bank, the IMF, the Russian Federation, the EU, the ADB—to strengthen our trench lines and counter the global economic tsunami. We are using this money to protect the poor and the vulnerable by strengthening our social safety programs and preserving expenditures for education and health. We allocated money to support small and medium enterprises and to build much needed infrastructure especially in rural communities. These investments—in rural roads, housing, irrigation, and other small-scale infrastructure—will improve living conditions and help keep people in work. We also created a better environment for our companies to compete by adjusting the exchange rate and maintaining a flexible exchange rate regime, as is necessary in such circumstances. Importantly, despite the severity of the crisis and the temptation to protect the economy seen in many countries, we maintained our liberal economic policies and open trade regime, and we are pushing ahead with the reforms needed to make our economy more competitive.

Looking forward, our main goal is to make Armenia a more attractive place to invest. A competitive Armenia, with open markets for everyone, will take full advantage of the important resources of our diaspora, and put the skills of our people to best use. Our economy will become less dependent on a few sectors, such as mining and construction, and more resilient to external shocks. We will thus be in a better position to take advantage of the recovery of the global economy, and lay out the foundations for fast and more sustained growth in the years to come.

My ambition is to see Armenia becoming an upper-middle income country and make significant progress in eradicating poverty by 2021. The World Bank has been a reliable and trusted partner in our efforts to build a more diversified and competitive economy. However, our economy remains fragile because it is landlocked; our production base is narrow; and we face high transport costs that hamper our efforts to diversify. The investments needed for better competitiveness require fiscal space that we are striving to create through a better tax effort. But the World Bank can also help us with more resources from its concessional financing arm—the International Development Association (IDA). Our hope is that Armenia will remain eligible for

concessional resources in the next round of IDA replenishment (IDA-16). Our track record has proven that Armenia has the capacity to put this money into good use for development and poverty reduction.

IDA resources are, however, limited and will not suffice. To meet our development goals we need to step up our public investment effort now, despite the impact of the crisis—with the prudence that has always been the cornerstone of our fiscal policy. The World Bank’s regular financing window (IBRD) provides to Armenia a unique opportunity to meet this challenge. We are using this window in our new Partnership Strategy, but we believe that with our strong implementation capacity we could put more of these resources to good development use.

I am very pleased that in the recently held Annual Meetings of the World Bank and the IMF the Development Committee pledged to ensure that the World Bank Group is well capitalized, with sufficient resources to help its member countries meet future development challenges. I am hopeful that a general capital increase for the World Bank Group will take place after the review of the Bank’s capital needs in spring 2010. A well-capitalized and strong World Bank is our best assurance that our efforts to diversify our economy and regain solid and sustained growth will succeed.

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