FISCAL BUDGET AND MONETARY CREDIT POLICY OF RA BEFORE FINANCIAL CRISIS AND TODAY

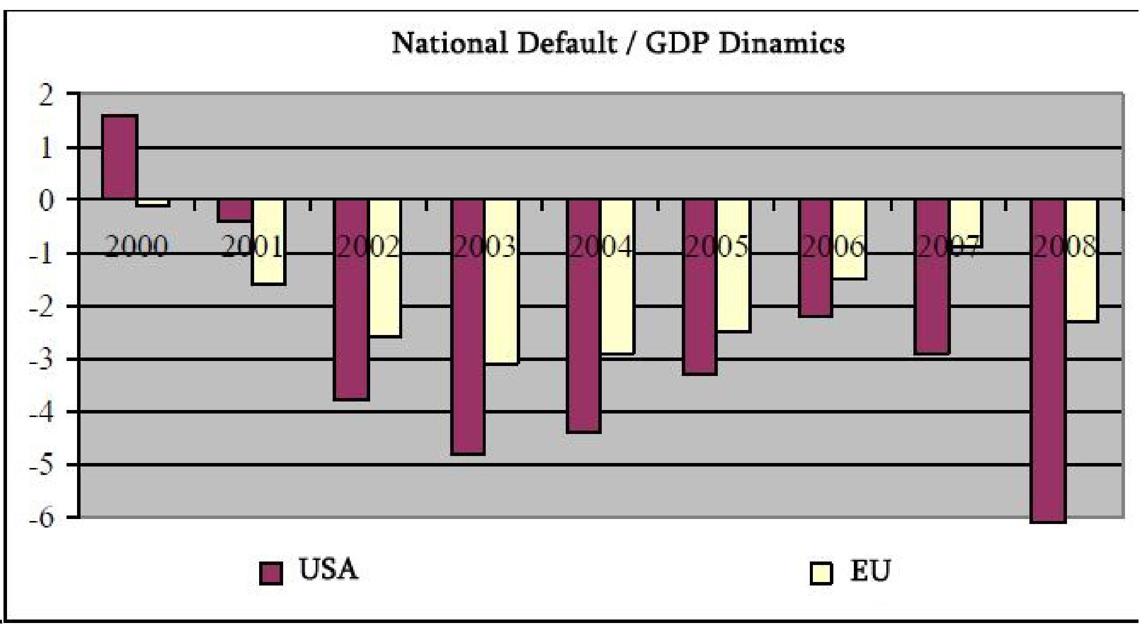
Let's split my lecture into following parts:

1. First I will speak about the development of global economics before the crisis, will present main directions and in that context I will talk about the fiscal budget and monetary credit policy of RA. I will present the achievements and lapses of that time.
2. I will briefly present the causes and consequences of global financial economic crisis, the influence of the crisis on the economics of RA and I will talk about the fiscal budget and monetary credit policy of RA at that time.
3. In the end I will present future plans and challenges.

1. THE DEVELOPMENT OF GLOBAL ECONOMICS BEFORE THE CRISIS

In the beginning of this millennium, when the dotcom crisis in 2001 was overcome, the global economics entered the stage of ascent. . In order to transmit additional impulses to economics and to secure the rise of economics after the crisis, the fiscal budget and monetary credit policy of powerful countries, especially USA and partially EU, since 2001 has started showing an expanding behavior. Specifically, from the aspect of monetary credit policy the Central Banks of countries, considering the providing of liquidity to financial markets, started abruptly lower their interest rate, which continued until 2004. This was manifested especially in the interest rate of USA's National Reserve System's policy. On the other hand governments of developed countries showed an expanding behavior too, increasing the deficit of national budget.

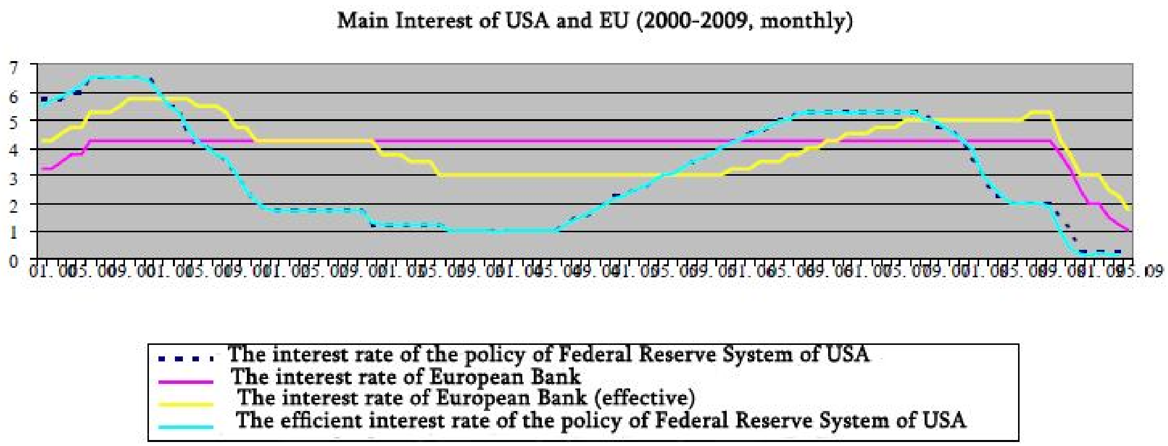
Table



*The source of given indexes is the information database of IMO's World Economic Outlook

In other words, the powerful countries of global economics, which were the engine of global economic growth, aiming for stimulation of economics, but expanding fiscal budget and monetary credit policy too much, caused **demand expansion** on global level.

Table 2



* The sources of given indexes are the official sites of European Central Bank and National Reserve System

In parallel to this progress there has been a considerable move in financial markets: in many countries the financial mediation based on banking segment is rapidly transforming into financial meditation based on markets. In this process the main circumstance was the rapid extension of securitization, which allowed to securitize the credit on bank's balance and to sell to different investors of global market as a new tool. At the same time credit risks distribution and shift took place, which allowed the creditors to shift the risk of default on another player in financial market, even when factually the credit remained in their balance (CDS-credit default swaps). The forthcoming of new tools in financial market caused an increase of finance flows on global scale and activity of financial market.

The other two important factors of global developments are rapid paces of financial system and the accretion of big and complex financial institutions. Financial globalization was an aftermath of never-stopping process of financial liberalization in different countries throughout the world. It had a good point: means could be transferred from one country to another and enter markets that guaranteed high profitability, from another point it gave an opportunity to investors to diversify their portfolios more efficiently. But this process also had one risk and defect: if there was a complication in financial markets in one of the countries, it would get a reaction in another country very quickly.

In past few years the big consolidation caused the establishment of many big and complicated financial institutions not only in banking system[1], but also in different financial sectors in general, not only in USA, but also throughout the whole world.
The factors for the establishment of such big institutions were:

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[1] One of the best examples is the purchase of big banking net "Fleet" by the Bank of America in 2004

1. decrease of expenses in information technologies
2. liquidation of hindrances in arrangement sphere
3. the pressure of competition

Although from the point of view of households and business it was profitable, as it lead to decrease of production expenses of those financial giants, but from another point it brought up the question, if those financial giants were managed productively, especially from the point of view of many different risks related to those activities. The consolidation in financial markets aroused another risk that some financial institutions already had became too big and too critical for normal activity of financial system, and the troubles of any one of them would cause systemic problems in global financial system. Nevertheless, these factors promoted **fiscal flow growth** on global scale.

Actually, the development of financial sphere in global economics promoted the quick distribution of fiscal budget and monetary credit expansion throughout the world. As a consequence starting from 2004 first signs of overheating were noticed in the economies of developed countries, which caused the overheating of global economy.

In the 3rd graph given below you can clearly see that starting from 2004 the gaps in the GDP-s of developed countries and global economics have become positive from negative, which continued till 2007 and with which the beginning of financial crisis was signalized.

Table 3

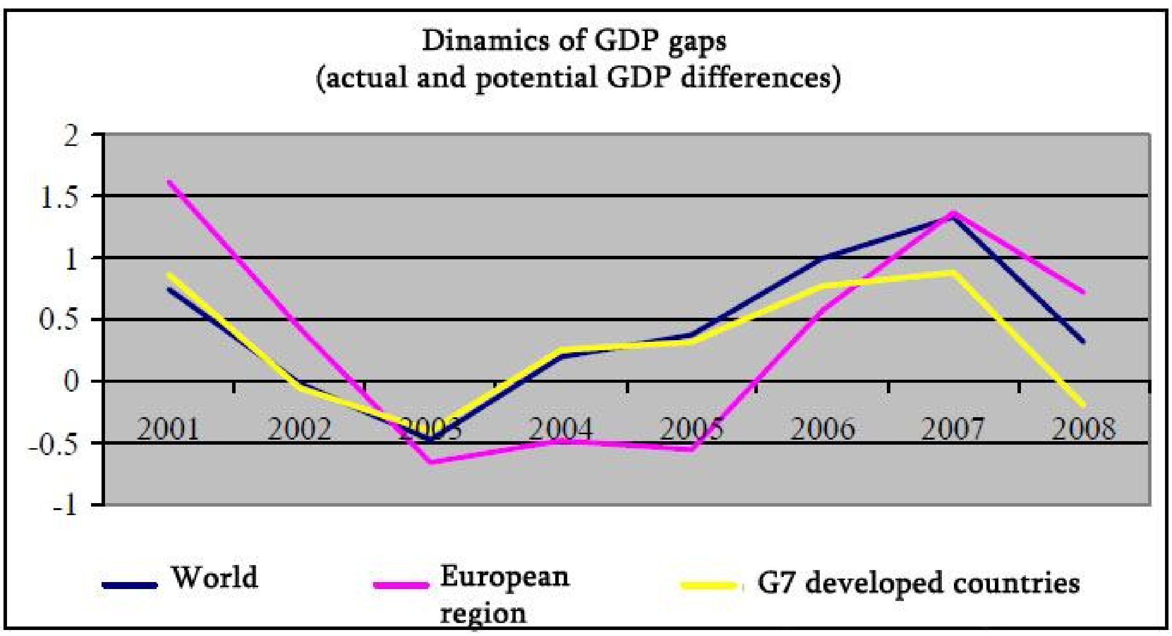
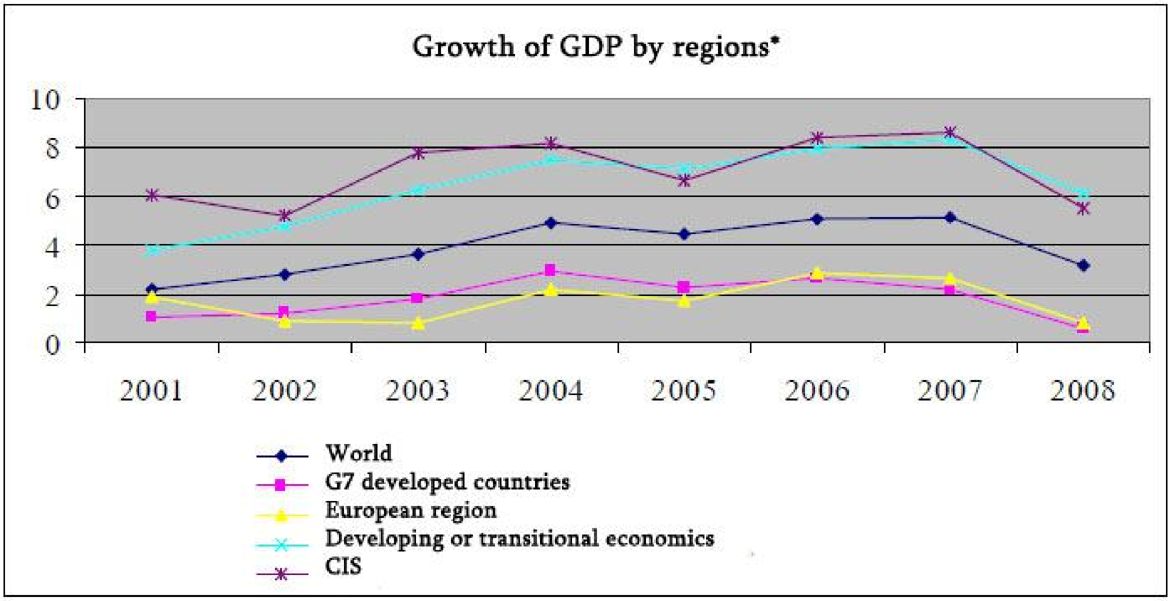


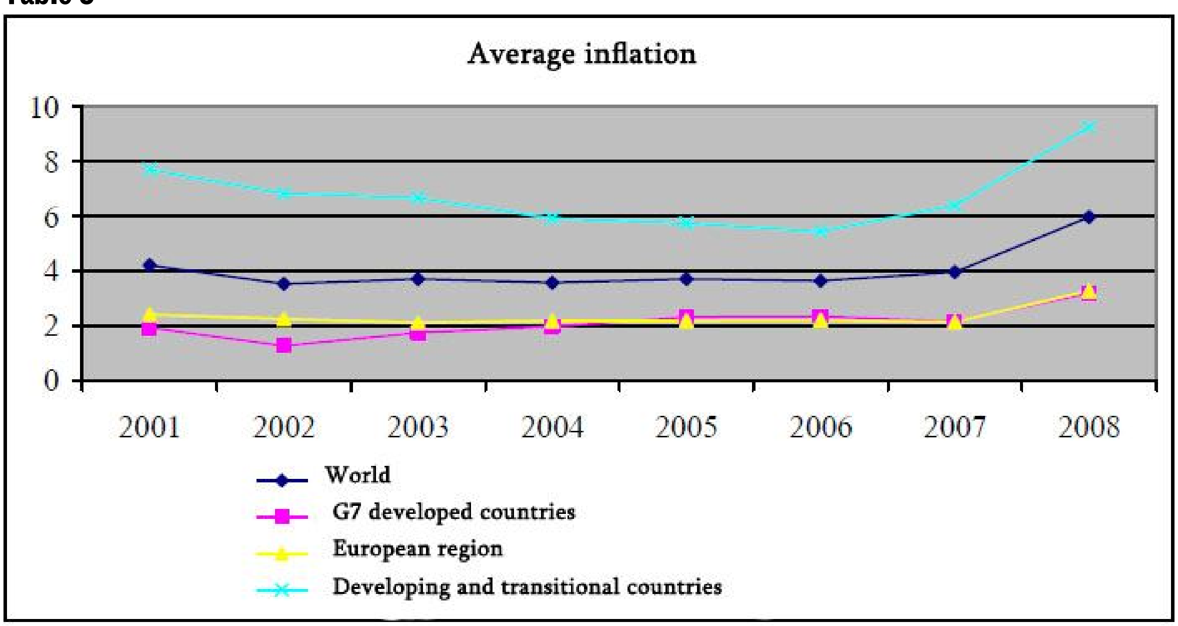
Table 4



* The source of given indexes is the information database of IMO's World Economic Outlook

It was typical that in parallel to such big expansion as fiscal budget and monetary credit policy in global and especially in economies of developed countries the environment of inflation still stayed stable during that time span and inflation expectations were well anchored. The other promotive factor was the adoption of stricter the monetary credit policies by the authorities in 2004, in order to soften inflation pressure. But the expansion of financial means must have accumulated in a certain sphere of economy, which were markets of real estate and raw materials, where the additional financial means accumulated and caused an abrupt growth of prices, and in the end formation of bubbles.

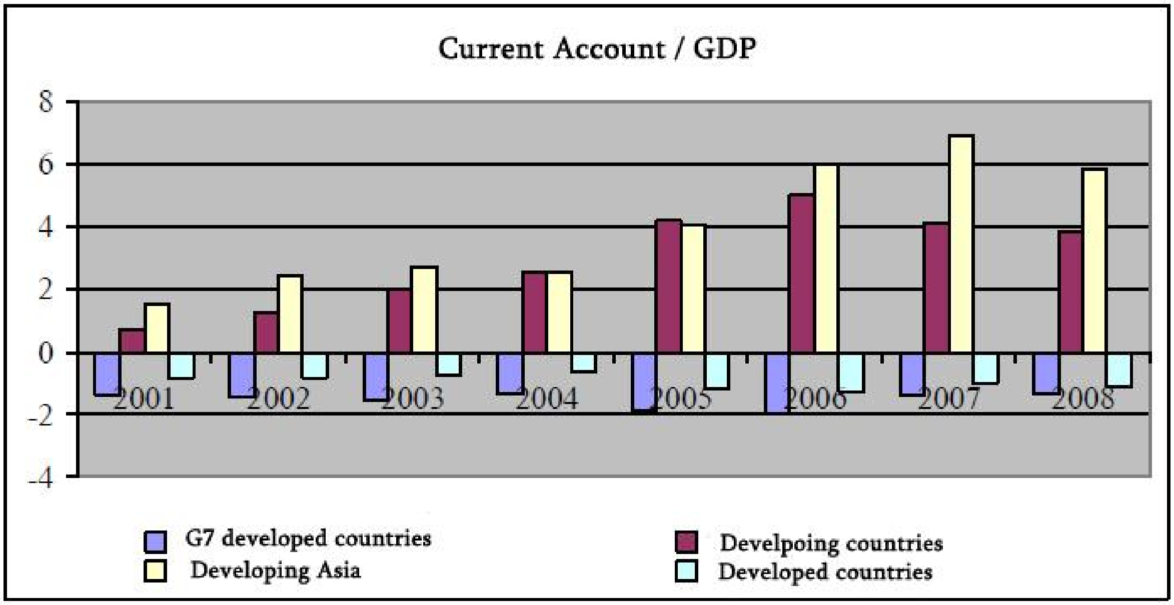
Table 5



What does this mean for developing countries and Armenia?

Fiscal budget and monetary credit policies of developed powerful countries being too expanded and combined with previously mentioned factors of financial market (which expanded the financial expansion more) created problems for developing world, including Armenia's economy. A significant financial inflow was noticed in these economies, which was a result of growth of developed world's demand on products and services of the developing world, on assets of developing countries, or it was a result of growth of financial donations (transferts) amount flowing into the country by 3rd country effect, as it was manifested in our country.

Table 6

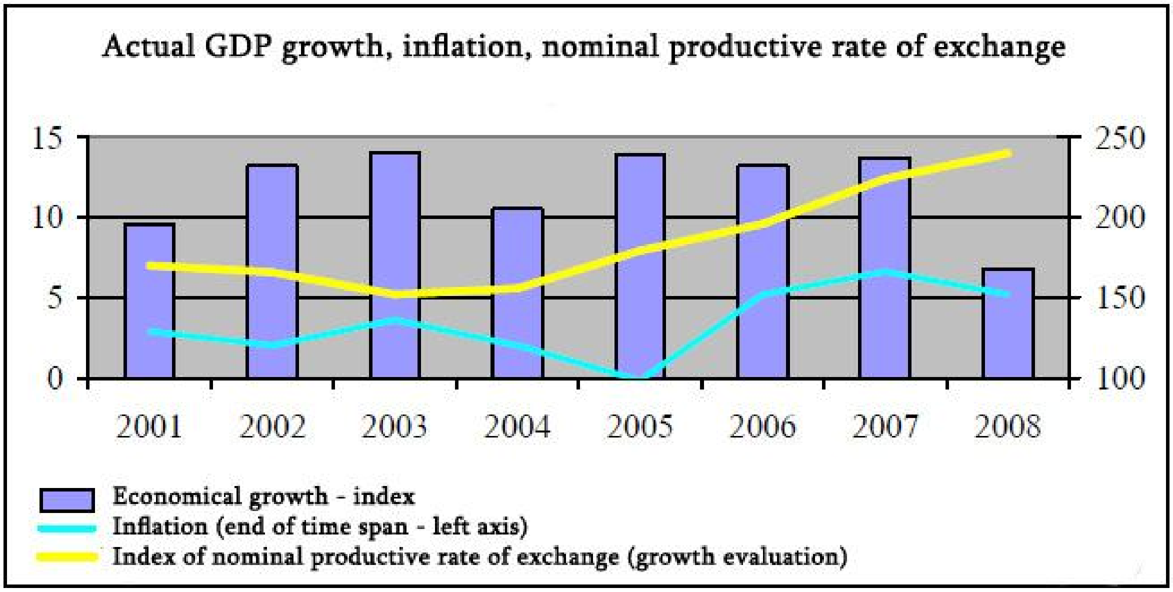


2. ECONOMIC DEVELOPMENT OF ARMENIA, BUDGET AND MONETARY CREDIT POLICY BEFORE THE CRISIS

2.1 MONETARY CREDIT POLICY

In previously mentioned context of global developments, Armenia, of course, has its own share. Starting 2001 it entered the phase of high economic growth and already from 2002 the economic upswing was in double-digit. At the same time, starting from 2003, like in many developing countries in the world, in Armenia there was a noticeable acceleration of paces of the financial flow into private sector, which created growth of additional demand and pressure on inflation.

Table 7*



* The price effect of grain products is separated from 8.6% of inflation (2003), which was a cause of abrupt price growth of grain in international markets (supple effect)

As the experience of countries has shown us (which is also based on economic theory), no country has had a chance to ensure low inflation, high economic growth and stable level of exchange rate during considerable inflow of currency. To retain the macro-balance of the country, it is usually necessary to "sacrifice" one of those variables, for preservation of desirable level of other two.

We can present the mentioned scene from another aspect: if a financial inflow and growth of demand are occurring in the country, as the capital and manpower of the country are limited in quality and quantity, then the permanently growing demand can't cause permanent growth of product supply.

Therefore instability occurs on macro-level of economy, for liquidation of which the prices must grow, which decreases the real value of gross demand in monetary expression, corresponding it with the real supply value of produced goods and services, or the exchange rate must be defined, to decrease the monetary equivalent of financial currency inflow and, given that the prices are stable, the real demand equals the real supply.

CBA has been guided by its main aim, defined in "Law on Central Bank" of RA, which is to give preference to the stability of prices, and to let the **currency float,** to ensure internal and external balance.

The reasons to give preference to inflation are:

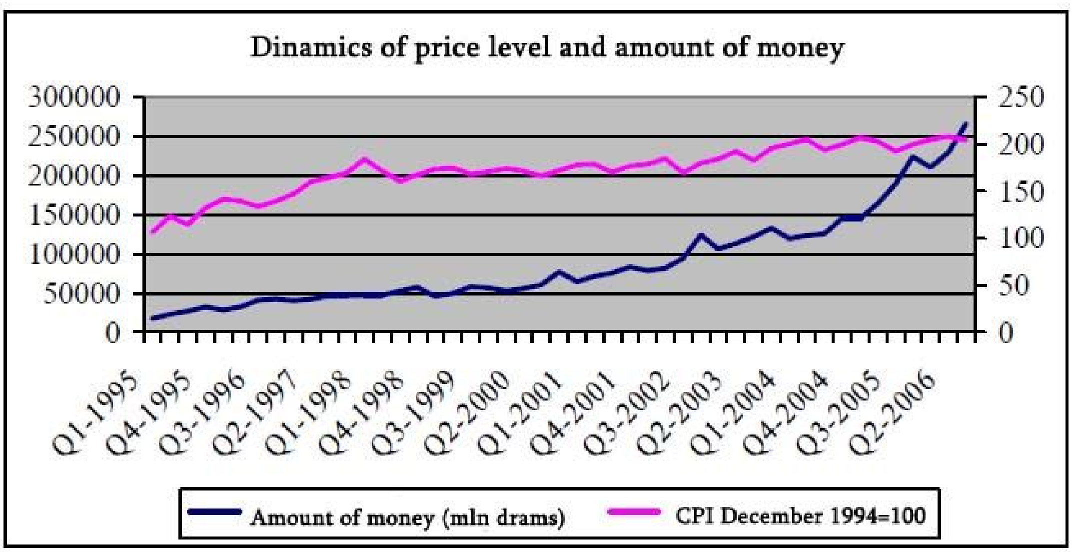
- Long term high inflation prevents economic growth; therefore, from the aspect of security of economic growth, great importance is given to the environment of low inflation.
- The insurance of low inflation in country's economy is viewed as a reliability of currency and maintenance of purchase power of the country, which can always be

executed by CB with the help of monetary credit policy, unlike securing the exchange rate, which is doesn't last long. [2]

- If the exchange rate harms only those members of society, whose income and expenses are in different currencies, then high inflation harms everyone without exception.
- In case of currency swings low inflation increases the appeal of signing dram contract and causes de-dollarization of economy, which will also promote decrease of shady cash amount.
- The tools for dealing with exchange rate swings are currency derivatives. Tools for dealing with them in case of high inflation are more limited. Usually, in case of high inflation society strives to consume at the moment, and not invest in financial tools, which increases inflation pressure and expectation even more, creating chaos in economy.

In time span before the crisis in monetary credit policy sphere in 2006 there was an important change of turning to policy of **inflation targeting**. Before that, the monetary credit policy of CBA was money unit targeting, which was not efficient anymore, so it ceased being a nominal anchor during structural shifts and inflation-money unit connection was weakened (see Table 8). Not going into details about money unit targeting and inflation targeting policies' advantages and disadvantages, let's just mention, that one of the most important advantages of inflation targeting policy was "Looking Forward Policy" execution, which meant, that all the operations by CBA should have been carried out considering assessments and expectations of future, as until the execution of CBA operations and their influence on market and economy there were time lags. That gave the operations of CBA flexibility and effectiveness.

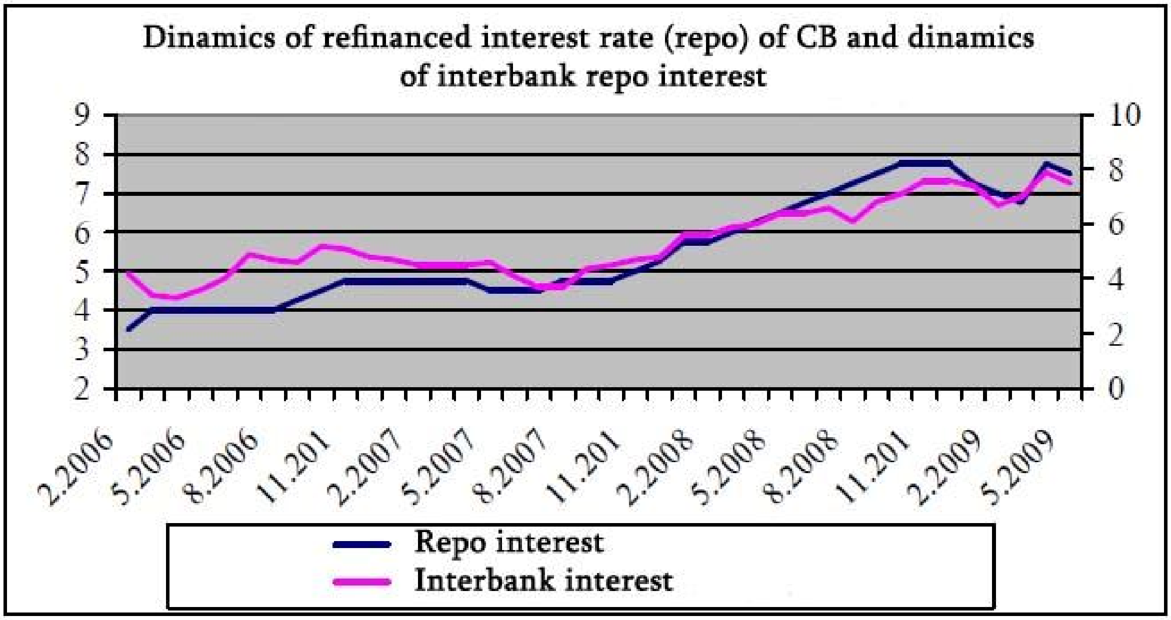
Table 8



[2] Note, the currency security can be long termed, if between the markets of economies (product, capital, manpower) of countries' linked by currency big integration exists (for example countries of European region). In case of Armenia no such country exists.

One more acquirement of the new policy was that after insertion of new tools by CBA in April 2006 in financial markets the responsiveness to the interest rate of CBA policy grew. This gave CBA a chance to move from quantitative regulations to classic price (interest rate) regulations.

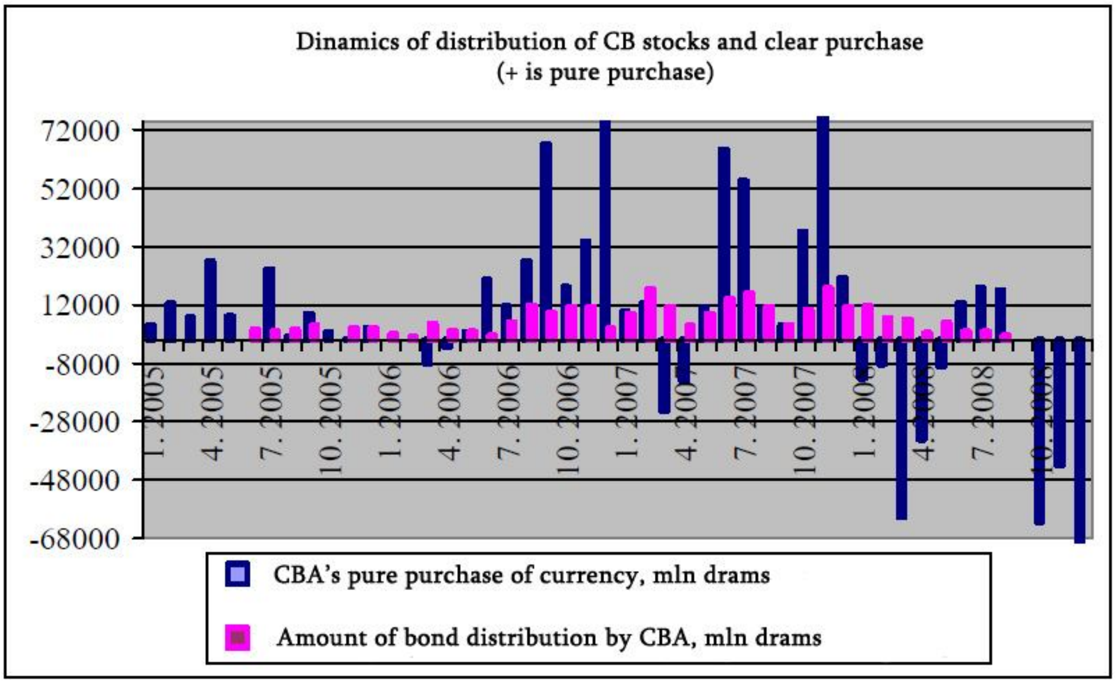
Table 9



Under the new policy the third important acquirement was intensification of financial markets and public relations (monthly and trimester media messages and meetings with participants of financial market), which gave opportunity to CBA to influence the expectations and to anchor them, which couldn't be done under the previous policy.

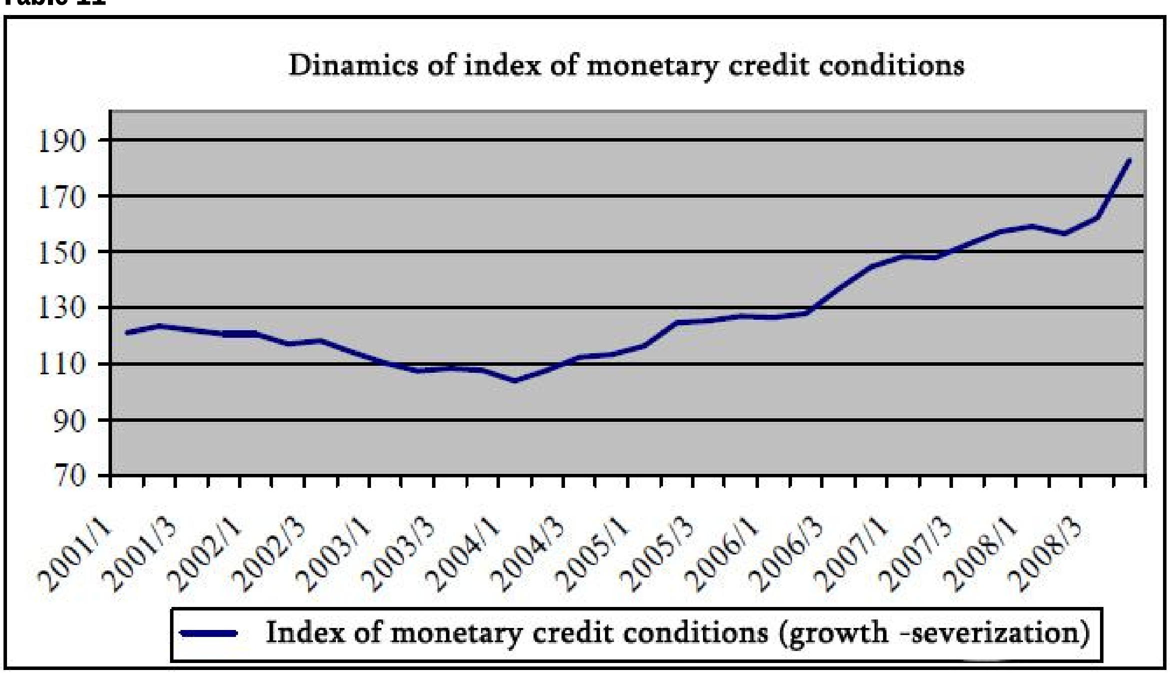
To commute negative consequences of currency inflow and pressure of exchange rate abrupt growth and to assure the level of targeted inflation, CBA inserted new monetary credit tool in 2007 – its own securities, with the help of which, CBA did classic sterilization: to commute the pressure in market of securities, CBA bought securities from that market and the additional money, which it got thanks to that operation, was backed by distribution of its securities. Thanks to all this in 1-2 years CBA increased its stock of securities to 90bln. drams.

Table 10



Even if these operations were efficient enough to restrain exchange rate growth and to retain low level of inflation, they had their price, which was the interest rate. CB couldn't endlessly increase its securities portfolio, as the growth of securities interest rate lead to the growth of national securities interest rate and raised the price of debt service, and in this case the classic version of supplanting would work (high interest rate would affect negatively the investments). There was another limitation – small volume of financial market, which didn't give the chance to do big sterilization of securities, as the system couldn't absorb the great volumes of issue of CB securities.

Table 11



If we look closely on behavior of monetary credit conditions index, we will see, that in parallel to financial inflow into economy of RA the monetary credit authorities have lead **countercyclical policy** matching their tools and opportunities of financial market.

2.2 FISCAL BUDGET POLICY

Global experience shows us that during different economic cycles efficient execution of monetary credit policy is not the only one of importance; the next important macroeconomic tool is **countercyclical fiscal budget policy**. As mentioned above, in our country as in many developing countries, financial inflow creates unprecedented growth of demand, which was impossible to confront efficiently only with restraining nature of monetary credit policy. It was necessary for fiscal budget policy to be rough, to restrain the unprecedented growth of demand, caused by financial inflow. In this situation it was very important to use productively the income tool of fiscal budget policy.

Table 12

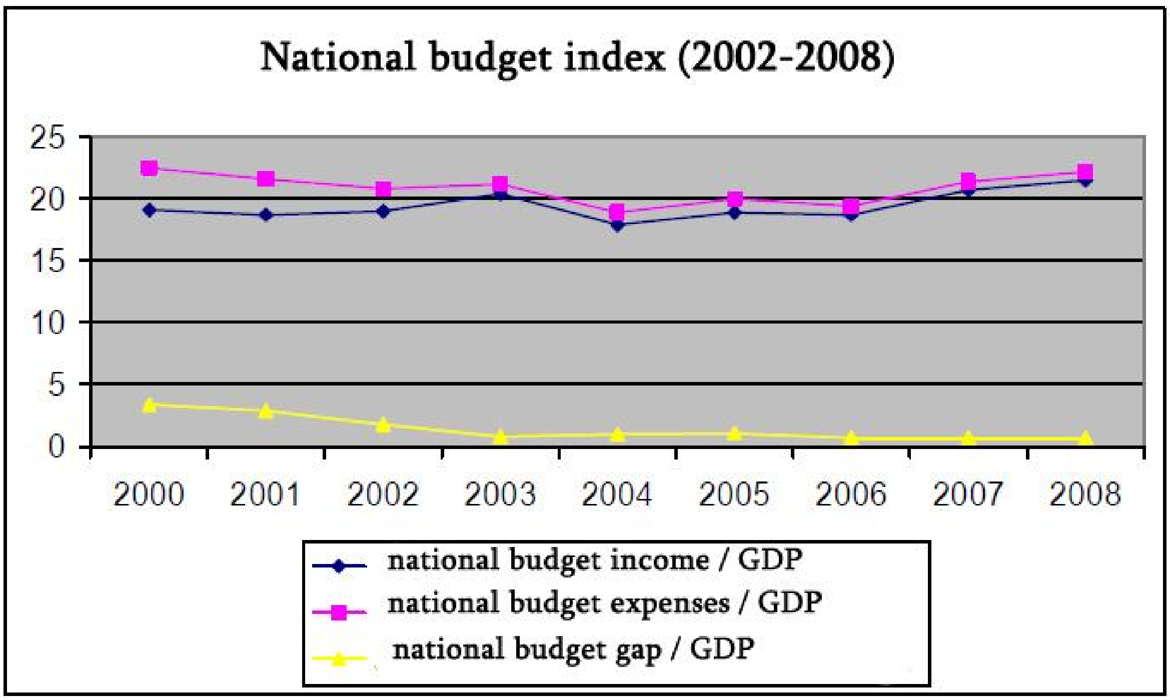
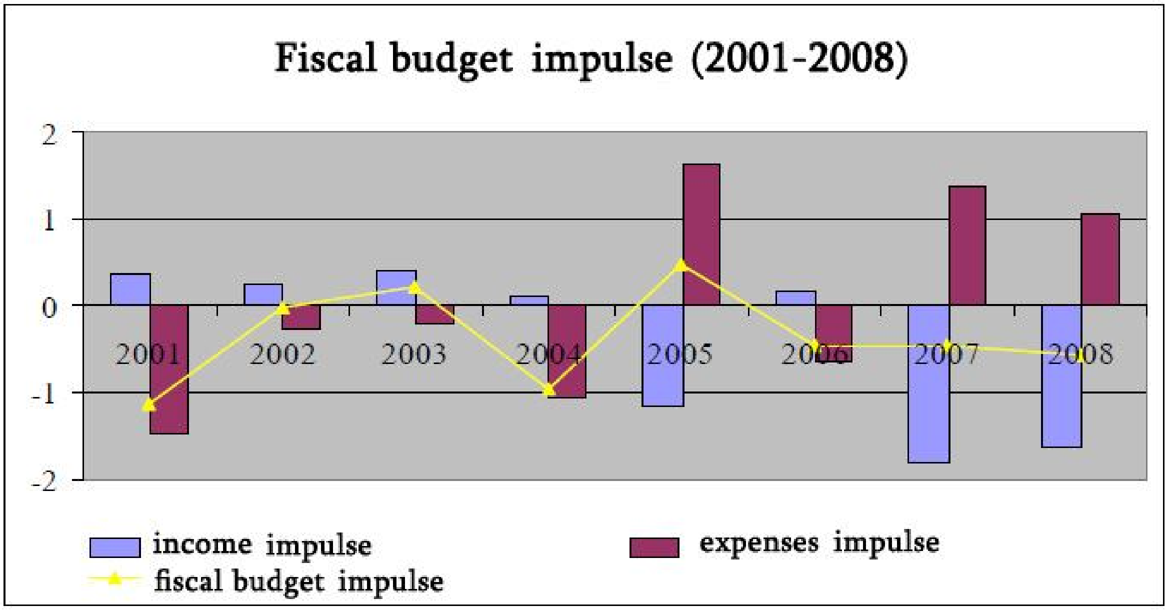
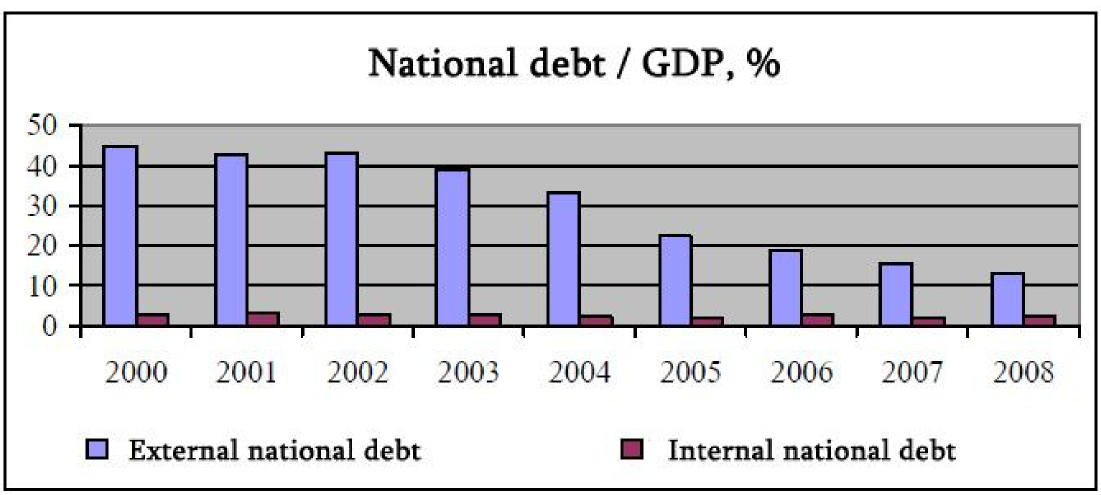


Table 13



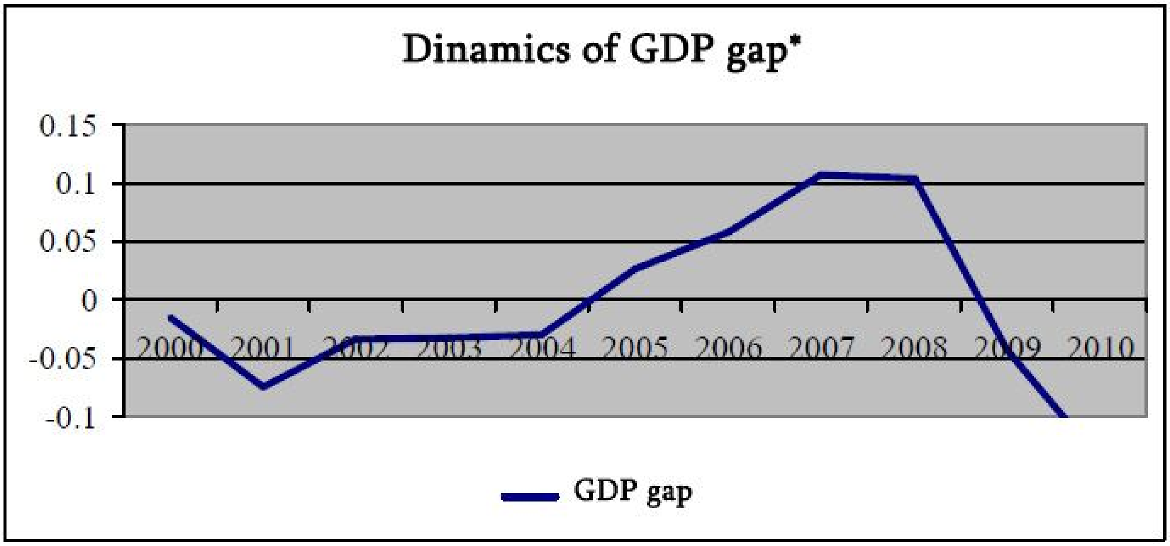
If we watch attentively the behavior of fiscal budget impulse, which shows the influence of fiscal budget policy on total demand, we can say that excluding 2005, since 2004 the fiscal budget policy has been deterrent (during **countercyclical-**economic upswing the budget collected liquidity more, than it injected). Saying otherwise, the policy of gap diminution was a correct one during economic upswing, which gave the opportunity to decrease considerably the index of debt/GDP and to create bases for involving additional debts to confront the financial crisis, without really endangering the debt stability. If in 2000 the external debt to GDP was 45%, in following years that index has had the behavior of stable decrease and in the end of 2008, it was 13.2%.

Table 14



Overheating was registered in our economy in spite of countercyclical nature of fiscal budget and monetary credit policy (Table 15).

Table 15



* The GDP gap given in the table is the logarithmic difference between actual and potential GDP-s. Positive numbers mean that actual GDP has exceeded the potential one (overheat)

Hence, question arises, if the fiscal budget authorities with their actions have been enough countercyclical, and if there have been any defects. There are some clarifications of the blanks:

1. First of all monetary credit authorities can be rougher and more countercyclical, but the price of that policy, as we mentioned above, would be too high interest rates, and in long term that would have negative influence on expansion of financial sector from one point, and from another one, it would pump out the investments. Small financial sphere weakens the influence of monetary credit policy on economy; therefore in times of need it can't be effectively countercyclical.
2. Although during all this time the monetary credit policy has been countercyclical, it has never been enough. The level of tax collection must have been increased for that purpose, which would have allowed to save more money from one point and from another would restrain the overheating of the economy.
3. Abrupt increase of tax collection could have been ensured by considerably improving the tax authorities, which has been done not well enough. The best time for improving tax management service is during economic upswing.
4. Structural improvements are lagging and causing highly significant roughness of prices and imperfect competition in several sectors of economy. That condition considerably decreases the flexibility of economy to resist shocks from one point, and from another point, the multiplicative influence of macro politics. As a reason, during economic upswing the economy overheats faster, and during decline the level of potential decrease is deeper.

3. THE REASONS OF GLOBAL FINANCIAL CRISIS AND WAYS OF OVERCOMING. THE INFLUENCE OF CRISIS ON ECONOMY OF RA AND THE MONETARY CREDIT AND FISCAL BUDGET POLICY CONDUCTED DURING THAT TIME.

3.1 THE REASONS AND CONSEQUENCES OF GLOBAL FINANCIAL CRISIS

In the first part of our report I briefly introduced global economic developments. Based on these, I would like to mention the main reasons, which lead to general instability and financial economic crisis:

- severe expanding macroeconomic policy of developed countries, which created demand expansion in global economy
- globalization and expansion of financial system, which strengthened the demand expansion
- weaknesses and blanks of supervision and regulation sphere
- complicated structure of high risk hypothecary credit securitization
- utilization of Mark to market evaluation of securities in accounting
- information issues and not enough transparency etc.

At the same time during economic activity upswing a very **optimistic expectation** was formed and the risks of income decrease were misjudged. Such expectation caused the execution of a very consumptive policy. Moreover the future riskiness of investment projects was misjudged too, basing on expectation of economic activity upswing continuation.

Two mentioned circumstances caused the growth of asset (especially real estate) demand and unjustified growth of its prices.

When the fact of slackening economic upswing became noticeable, the misjudged risks and the unnaturally high level of asset prices emerged as well. Their influence showed up not only in abrupt decrease of asset demand from private sector, but also in distinguished manifestation of real risks in investment projects.

Such dramatic change first of all caused abrupt balance decline of financial enterprises, which in the end caused rapid bankruptcy of particular enterprises.

Altogether, the weak supervision of financial system in developed countries has also played its significant role in the process of abrupt deterioration of the enterprises in the system condition. The problem is that the developing countries have always been under the surveillance of fulfilling the requirements of international authorities (IMF, WB), while the developed countries have not been implicated to any requirements and surveillance of financial system regulations. All these reasons caused the emergence and rapid extension of the financial crisis.

3.2 WAYS OF OVERCOMING THE CRISIS

In case of gross demand decline, the necessity of **international systematization** of monetary credit and fiscal budget policy arises all over the world.

From the aspect of **monetary credit policy**, for fast rehabilitation of global economics, it's necessary for all the central banks of big developed countries to systematically decrease the interest rates. Otherwise, slow process of demand rehabilitation and undesirable flows between countries (from countries with low interest rate to the ones with high interest rate) will emerge, creating problems for countries, which had decreased their interest rate.

From the aspect of **fiscal budget policy**, it is also necessary for open economies, to execute stimulating fiscal budget policy in all the counties at the same time. The fiscal budget policy of only one country will be conducted with increase of import to that country, slackening the process of economic activity rehabilitation. It's important to mention that almost every big developed country has followed these rules, which gives us hope that fast overcome of the crisis is possible.

The necessity of systematization of **monetary credit and fiscal budget policy** also arises in economies of separate countries. For example, the decrease of interest rate by monetary credit policy is not enough to stimulate enough demand. In case of demand decline and risk increase, the too careful behavior of banking system about credit providing is an obstacle for effectiveness of transferable interest rate mechanism.

In this case the policy of direct demand stimulation becomes very important; the efficient version of this policy is the extensive **fiscal budget** policy. Still, the formation of deficit because of volume extension of national obligations can cause long-term undesirable increase of interest rates. In addition to reducing the interest rate, the central banks are required to realize big direct purchase operations of national obligations, to prevent long-term interest rate increase.

From the aspect of systematized monetary credit and fiscal budget policy realization we can also say that almost every developed country has executed those necessary arrangements.

For the developing countries in addition to arrangements mentioned above, the support of international financial institutions is of great importance too. They play a big part in the process of overcoming the consequences of crisis generally by providing financial support to the governments and the central banks of developing countries. Because the developing countries are limited in the process of financing the deficit with national securities, the budget deficit is funded. On the other hand the external assets of central banks are abruptly increased, to resist undesirable risks on exchange rate.

The policy mentioned above is the field of macro-policy that needs immediate implementation. But in long-term the creation of architecture of financial system it also important, the main knots of which must be the new approaches of financial market regulations, supervision and risk management.

3.3 THE INFLUENCE OF FINANCIAL ECONOMIC CRISIS ON ECONOMY OF RA

In economy of RA the financial economic crisis started manifesting clearly in October 2008. We should mention that the primary influence of the crisis is that there was no panic in financial markets and problems of liquidity of banks and other financial organization here. But we suffered from the secondary influence of the crisis, which influenced our economy through the following 4 drains:

- decrease of private transferts
- decline of raw material and especially metal prices in global market
- export demand decline of our inaccessible products and services because of global demand decline

- Decline of inflowing investments volume into economy of RA, because of decline of liquidity of financial means in global economy.

In the conditions mentioned above, the economic growth in 2008, instead of double-digit growth of previous years, was 6.8%. And from 2009 the negative consequences of financial economic crisis started manifesting in our economy even more clearly. Based on data from National Statistical Service of the RA, during January-April 2009 compared to January-April 2008, 9.7% of economic decline was registered.

Theory and global experience show us, that in this situation monetary credit and fiscal budget policy must be **countercyclical-extensive**, that is to say, in case of expenses decrease in private sector the national sector must be spending, to ensure the necessary pace of demand growth and to counteract with the influence of financial inflow decline.

3.4 The monetary credit policy of RA during the crisis

The monetary credit policy during recent years, as we mentioned above, has been restraining, aiming to commute the inflation pressure and to anchor the expectation. The environment of high inflation in our economy continued till September-October 2008. Afterwards progressive weakening of inflation pressure was observed, mainly because of abrupt decline of raw material and consumer product price in global economics. Therefore, from December 2008 CBA started gradually lowering the repo interest rate, specifically in December it was lowered by 0.5% (from 7.75 to 7.25), and in next 2 months by 0.25 during each.

The gradual decline of demand and the increasing of the risk in economy started reflect on the behavior of the banks. In spite of the fact, that CBA was showing impulses of its extensive behavior, the banks gradually started showing conservative risk-averse behavior. This, of course, found its reflection in the behavior of monetary aggregates: starting from September 2008 the unprecedented growth behavior of monetary aggregates of recent years changed and started manifesting tendency of stable decrease. Moreover, the paces of crediting volume growth decreased considerably; in May 2009 (up until 15th) the volume of economy crediting compared to December of the previous year has increased only by 1.5%, when last year in May the increase, compared to the one in December 2007, had equaled 23%.

To counteract with this situation in May CBA abruptly lowered the repo interest rate by 1%, at the same time extending the monetary credit tools[3]. Moreover, in context of productive systemization of fiscal budget and monetary credit policy CBA has realized voluminous purchases of national securities, to support the government's abrupt extension of issue volume.

[3] Nowadays, to ensure structural liquidity, CBA offers the markets a repo for 3 months or longer, which lowers bank expenses

Table 16

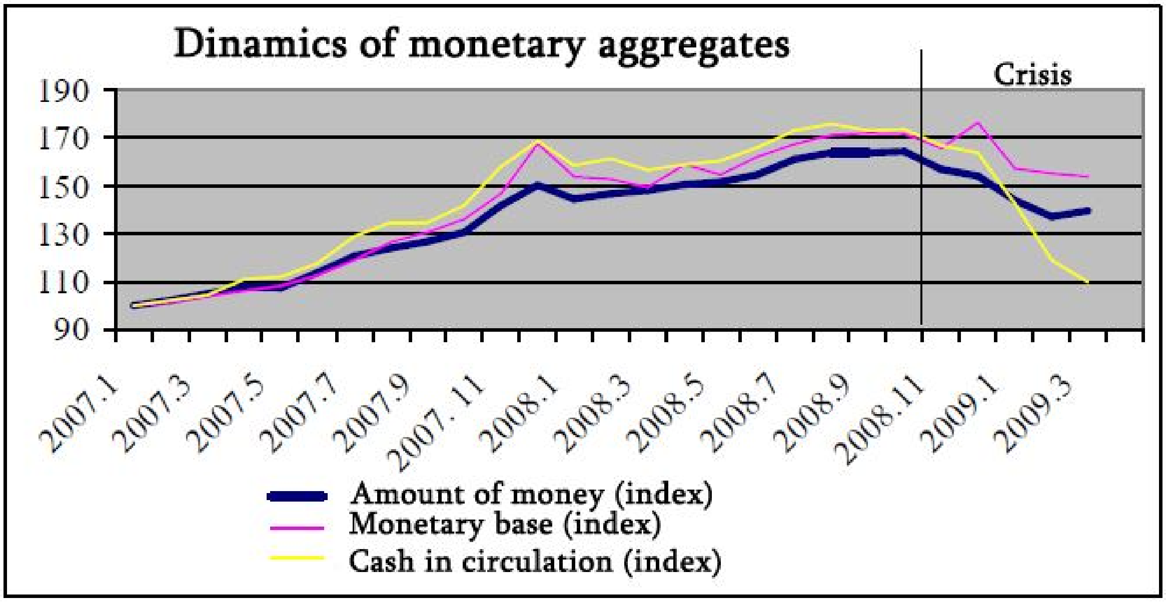
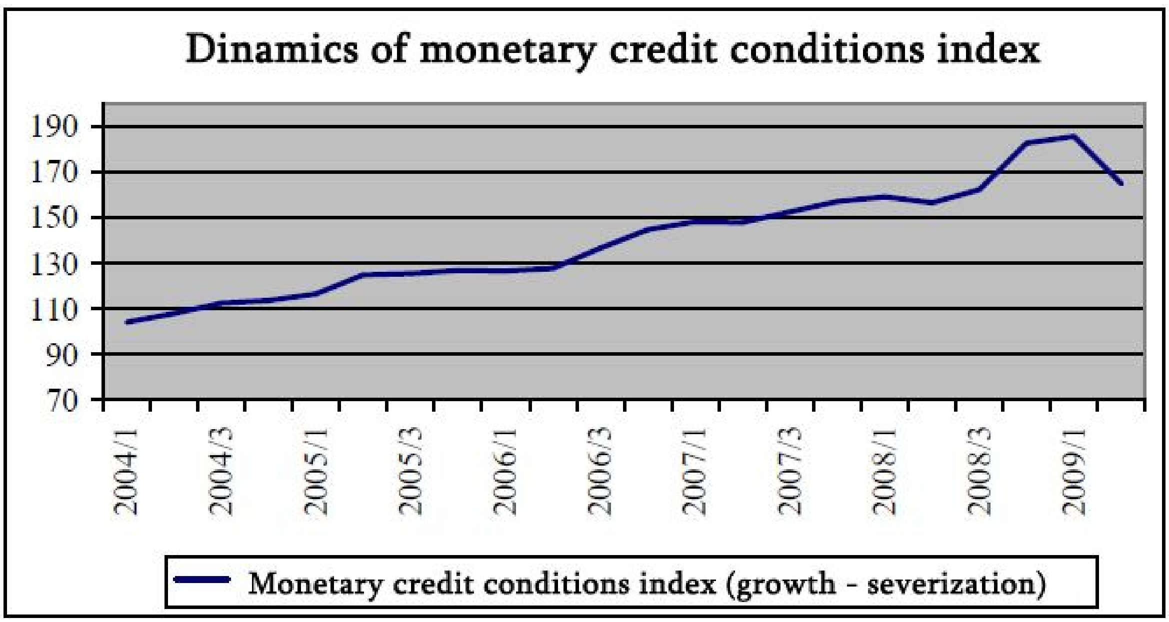
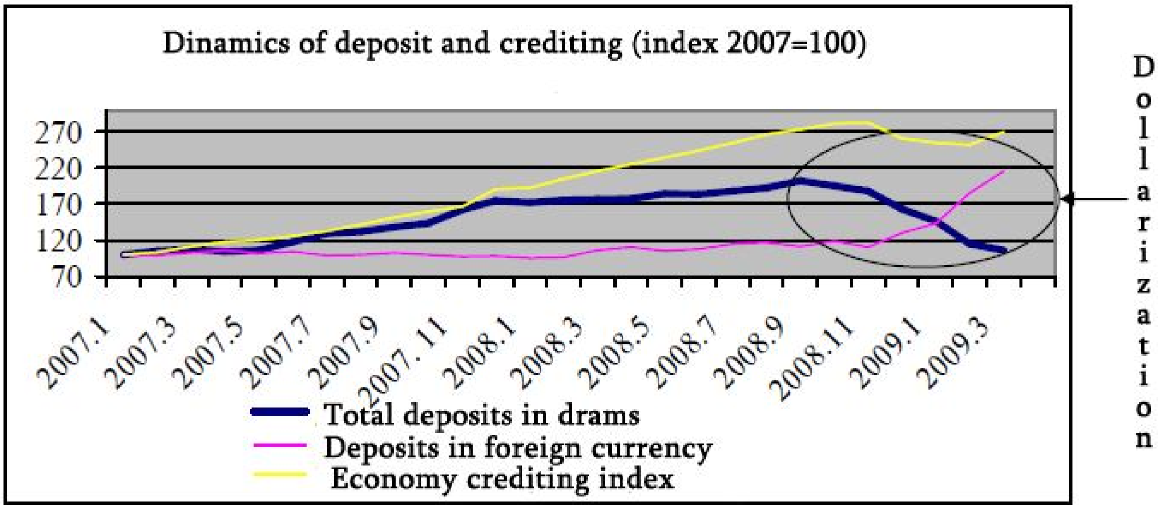


Table 17



In monetary credit policy sector one more issue was important: the experience of the countries shows us, that in times of crisis the central banks are confronted by **financial stability-inflation dilemma.** But in long-term the preference was almost always given to financial stability and in many cases to ensure financial stability central banks have made many injections. CBA found itself almost in the same situation after October 2008, but in that case the dilemma of currency-financial stability was there. Since October 2008, explained by the behavior of country's economic fundamentals, the pressure of devaluation on exchange rate was noticed. Until March the exchange rate was kept fixed only for one reason, that is, for financial markets to have the opportunity to refine their positions, after which the process was set free. This "game" allowed financial markets to get ready for devaluation, otherwise there would be tremors, which could easily become a crisis in financial sector. And that would paralyze the economy and would deepen more the consequences of negative influence from external world. At the same time in March, immediately after currency liberalization, CBA abruptly raised the repo (refinancing) interest rate by 1%, aiming to restrain the possible speculative manifestations following the currency devaluation in financial market.

Table 18

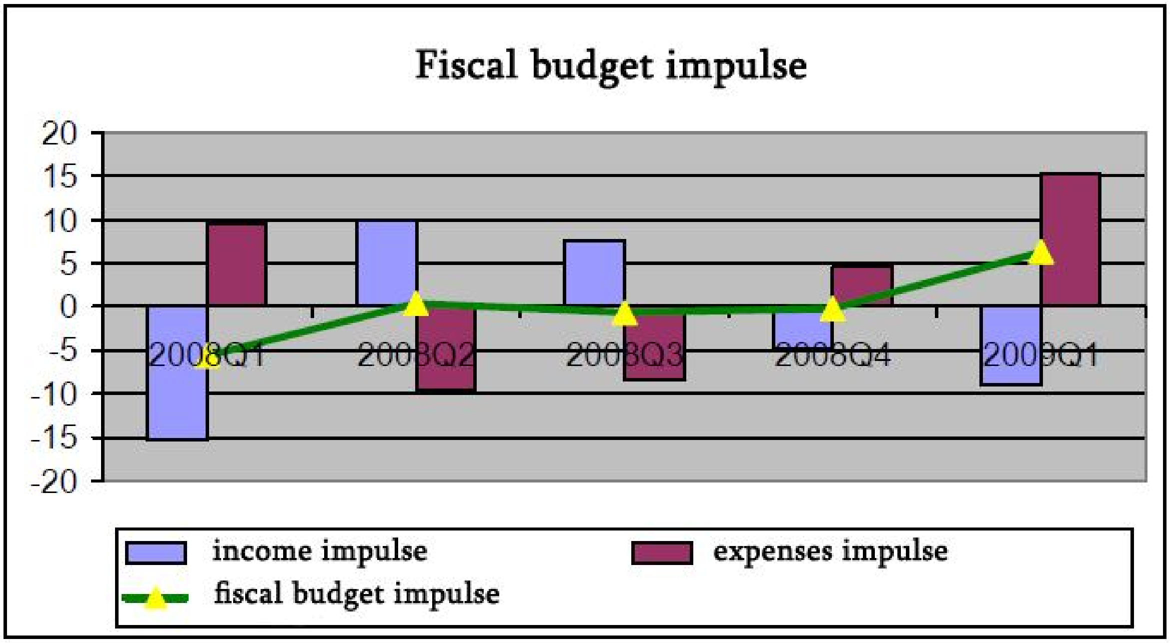


3.5 THE FISCAL BUDGET POLICY OF RA AFTER THE CRISIS

The fiscal budget policy started having some difficulties after September. Specifically it manifested as tax collecting problems, as because of decline of economy activity the pace of tax income proceeds slowed down. But in 2008 the level of tax income in aspect of realization of budget plans didn't create difficulties and was realized on time and totally. When summarizing the results of tax income of the first months of 2009, it became clear that the deepening influence of the crisis had created additional difficulties for collection of tax income. Because of that and giving importance to the policy of economic activity growth, the government aimed to realize some part of the national budget at the expense of budget deficit growth. Because of that, when in the beginning of the year the level of budget deficit was anticipated to have less that 1% of GDP, it was raised to 6.5%, by doing so, extending the gross demand or executing countercyclical policy.

The fiscal budget impulse has been neutral till the fourth trimester of 2008, and then positive, reflecting the extensive policy of the government. Moreover, during the second trimester it has continued, by also being funded from the expenses of securities issue volume extend.

Table 19



4. FUTURE PLANS AND CHALLENGES

In this situation the government and the central bank must execute systematized extensive policy. In that case the financial support of international institutes and donor countries become very important for realization of extensive macroeconomic policy. More than that, the aim and the principles of the policy are also important for the government.

To commute the consequences of global crisis **the government has adopted the following principles of the policy:**

- **To insure macroeconomic stability with the help of insurance and fixation of financial markets stability.** This creates necessary environment for households and consumers to show productive behavior, and also extends the opportunities of the government to realize its plans. There can be no economic stability if the financial markets are in tremors. Every country thinks of its financial market as circulatory organ and in case of its "blockage" the economy of the country falls into shock. The economy of RA, in the aspect of financial markets, has relative advantage over other countries, where global financial crisis has entered directly into financial markets. Stable financial market extends the opportunities of the government to realize efficient policy of demand extension. The stability of financial markets also gives the opportunity to share the risks in economy between different members of society.
- **To realize such policy of currency that will give a chance to avoid misrepresentations in economy.** Efficient currency policy creates misrepresentation and fake expectation, which promise crisis risks. In March it was allowed in RA to refine the currency to insure totally internal and external balance. Before that the exchange rate fixation came from the aim of financial stability insurance and was directed to give the opportunity to the participants of financial market to refine the positions of foreign currency and to fixate the liquidity. As a reason, the liberalization of exchange didn't hit the financial stability, as this sector of economy was already prepared for it. Now

the exchange rate totally matches the macroeconomic fundamentals, which indicates that there are no misrepresentations in our economy. In the future the exchange will be allowed to float and to absorb the negative risks in economy, and the currency market will only interfere to smooth significant tremors and to counteract with speculative manifestations. Thanks to this policy the possibility of misrepresentation will be gone from our economy, also households and consumers will not make up fake expectations and unproductive behavior, meaning that the economic effect of the extensive policy of the government will reach its maximum.

- **Communication activation with public and business, for transmitting correct impulses and for development of objective unitary expectations.** The economy of the country is usually anchored on behavior of society (consumers) and firms. Their chaotic behavior in case of a crisis can have undesirable consequences and deepen the damage done to economy. In times of crisis it is very important to transmit correct impulses to society and to decrease asymmetric and chaos causing information.
- **To execute extensive fiscal budget and monetary credit policy that supports the real sector of economy.** In times of economy decline the execution of countercyclical fiscal budget and monetary credit policy is very important. Moreover, macroeconomic and financial stability and of course exclusion of misrepresentations mentioned above are important prerequisites for realization of efficient countercyclical policy.

Based on principles of economic policy mentioned above **the extensive policy of the government will take the following directions:**

- Realization of entity projects, which will immediately promote the inner demand and of course economic growth and creation of workplaces
- Addressed support to companies who have temporary difficulties, thanks to which the companies will be economically active, and the economic growth will be promoted
- Support to small and medium business by improving business environment and by liquidating the obstacles, which may disturb the activity
- Consistent realization of budget expenses that have social tendency, thanks to which social pressures and public pessimistic expectations will weaken

The following steps and actions are to be taken for execution of the policy mentioned above

Realization of entity projects: the following measures are provided by anti-crisis plan of Armenia for maintaining entities, which insure natural vital activities and new projects realization

- Realization of road-building projects: building 200-1000km of highway from 2009 to 2012: with about 110bln. drams funding
- Apartment building in disaster region: with about 75bln. drams, including the construction of Varpetats town
- Modernization of irrigation and drinking water systems: about 100bln. drams
- Launching of pan-Armenian bank and hypothecary fund: 3bln. drams.

- Construction of new atomic power station and railway, which requires big investments (a research and analysis are being done for amount evaluation of investments)

Addressed support to companies who have temporary difficulties: to raise the resistibility of economy, the government executes addressed support for separate companies, the aim of which is to create new workplaces, to promote the substitution of imported products with local ones, to increase export, to extend local raw materials usage, to promote the usage of innovatory technologies. Specific tools are used to reach this aim: giving national vouchers, subsidization, including direct funding, participation in enterprises capital of agriculture sector. For evaluation of business projects a work group and operational headquarters have been created by the orders of prime-minister, where specialists of different spheres and representatives of departments are included.

Moreover, by using already working business abilities and mechanisms of banking system, the country realizes an extension of small and medium business crediting with the help of banking system. For that purpose and for increasing resources of banking system crediting, 15bln. drams have been provided from national budget.

Creation of favorable environment for more productive activity of small and medium business: the base of stable economy is small and medium company, the role of which becomes more important in times of crisis.

The government also executes consistent improvements and significant simplification of tax management, specifically for companies who have less than 100mln. drams in circulation, the requirement of obligatory accounting has been disposed of. The procedures of tax accountability have been and are being simplified. The minimal limit if VAT has been fixed till 58.35mln. drams, if the business has less circulation it won't be counted as VAT payer. At the same time negotiations are being held with EU for establishment of deep and extended free trades conditions, which will decrease economic expenses of business export.

Consistent realization of budget expenses that have social tendency: the strength of measures mentioned above also depends on not allowing significant social problem emergence in society because of the crisis.

Thanks to social expenses the society won't panic and won't show unproductive behavior. Now the government has entered strict budget saving mode by stopping some budget expenses, aiming to protect the full and whole execution of government's social obligations in conditions of limited financial inputs.