

**Economic Condition of Armenia; Depreciation of USD and Varying Impacts; USD (\$)
Volatility; Political/Economic Comparative Analysis; Conclusion and Recommendations.**

Money Market~ Resolution of Campaign Expenditures; Remittances; Remittances, AMD Appreciation and Social Impact; International Assistance: Depletion of Monetary Sources; Shadow Economy and State-Sponsored Monopolies.



HINKLEY INSTITUTE OF POLITICS
AT THE UNIVERSITY OF UTAH



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THE ARMENIAN CENTER
FOR NATIONAL AND
INTERNATIONAL STUDIES

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Within the past number of years Armenia has developed at an economic pace (13.8% GDP growth 2007, CIS average 9%)¹ comparatively faster than any developed nation in the world, whether this is due to its newly found independence or the fact that those nations are already developed; although certain political forces do not monitor their use of vernacular when terming the double-digit GDP growth as an ‘achievement, we personally can consider this merely a commendable *fulfillment of responsibility* of the ruling government (Arka News Agency, 2007). During this development stage, we must present a few daring questions; 1. At what level are these changes being implemented, at (structural, societal, international, etc)? 2. Are these changes merely cosmetic in their approach to creating a social society, a ‘prosperous’ society? 3. What are the consequences of failure?

All of these questions will be analyzed within an economic/political frame-work. As Armenian policy makers we must begin to understand that Economics/Finance and Politics have a strong correlative phenomenon, that the saying “Finance is the gun and Politics is knowing when to pull the trigger” is not merely a play on words but rather the foreign & domestic policy of every global power, past and present.

Armenia must develop a national ideology, one that shapes every sphere of work, whether it is cultural, education, financial or social. Today our Armenian analysts, who are involved with interpreting and disseminating their understanding on the status quo, must recognize that Armenia is not in need of anymore ‘descriptive’ models, but rather models that are ‘proactive and create.’ The best policy makers recognize that *‘it is harder to predict the future than it is to create it.’* We must begin *mobilizing* as an international people and begin a national ‘praxis’ or ‘active-practice’ of the future we see at hand.

Social change (poverty reduction, rural development, unemployment, etc.), is defined as the independent variable of domestic policy administration, what is dependent on such change is the domestic political situation of Armenia and at times the international stance. The chain does not stop and it can be said that the domestic political situation of Armenia is contingent on the economic status of the nation as well as the permanent and temporary residents as a whole. This reflects the *importance of analyzing the economic condition*, as it can give us a *predictive roadmap* to what will domestically change within political, social, cultural, etc... institutions.

In-addition to the aforementioned context, certain economic developments of the past couple of years must be closely analyzed. The depreciation of the US dollar and the impact on remittances from the Armenian Diaspora, rural development programs (MCC/MCA, USAID, IGOs), tourism,

¹ “CIS Statistical Report: 13.8% GDP Growth Recorded in Armenia in 2007,” *Arka News Agency: Economy*, < <http://www.arka.am/eng/economy/2008/02/08/7986.html>>, accessed on August 5, 2008.

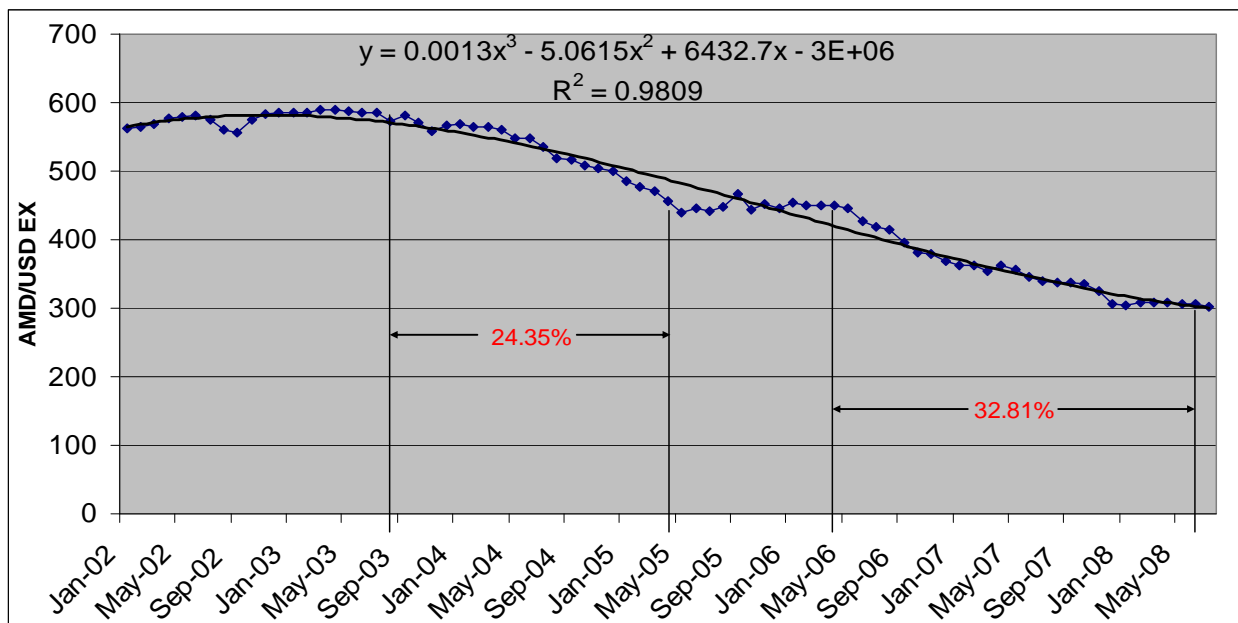
credit/money market and social conditions of permanent residents. The presence of a shadow economy; politically sanctioned monopolies and domestic affect on social conditions and behavior; comparative analysis of economic effect on political situation.

A special comment must be made prior to presenting any statistical data or statistical analysis of such data. Although we must be critical of collection of statistical data, *I will take all data provided by the AEA and NSS as complete and fully reliant (at times data will be incomplete, as it was incomplete when retrieved from the sources)*. As such it must be said that a sense of statistical (collection, editing, analysis) mistrust and lack of integrity, by not only analysts but also citizens, is ever so present within Armenia and the CIS countries.

DEPRECIATION OF USD AND VARYING IMPACTS

Before beginning the analysis and in-order to obtain a better understanding of the context, quantitative data will be provided. In January of 2005 the AMD/USD monthly average rate was 491.7; although the US dollars descent started sooner, analysis will consist of data starting from the month of January. The USD quickly lost its value, by the end of 2005 the AMD/USD exchange rate amounted to 449.4 (-42.3, 8.6% drop) and by January of 2007 it was 363.7 (-85.7, 19.07% drop) dram for one US dollar. Furthermore, data of monthly exchange rate (beginning of month) for the time period starting from January 2002 till July of 2008, display a similar picture. From Jan-02 till Jan-03 the AMD lost value of 4.15% (Jan-03 585.71), it than-after began a steady decline till 2004 (Jan-03: Jan-04, -2.84%). Close attention must be paid to the AMD rate starting from sept-03. *From Sept-03 till May-05 (Jan-04: Jan 05, -14.5%) the AMD appreciated in value by 24.35% (May-05 439.25), than from the period of April-06 till July-08 the AMD further appreciated 32.81% to its current standing of 302.68 AMD.*

FIGURE 1. USD/AMD REGRESSION²



[April-03 (589.02 AMD) ~ July-08 (302.68 AMD); AMD monetary appreciation of 48.61%]

² "Economic Data: Exchange Rates," *Armenian Economic Association*, < <http://www.aea.am/?action=content&cid=8>>, accessed on August 5, 2008.

A better look at the AMD/USD exchange rate and the volume appreciation of the AMD is presented in insert 1 (% Change, with AMD/USD) as well as insert 2 (Volume Change), which illustrates the AMD/USD change over time.

Within political/economic discussions among society there is a general lack of knowledge of what determines the exchange rate fluctuations, as is normal for any individual outside their area of expertise. However, due to the lack of social economic welfare, deflationary pressure on consumer products (staple items) and formal attempts to clarify reasons for the AMD appreciation all have caused rumors and anecdotal references to fester among society. Among such 'rumors' are:

- a) *The 'artificial' downward pressure on the USD/AMD exchange rate by Central Bank official's in-order to collect on money-market investments.*
- b) *Parliamentary and Presidential elections in Armenia, campaign expenditures of ruling official bodies and attempts to resolve campaign debts.*
- c) *Artificial appreciation of AMD in-order to collect percentage on foreign remittances by Diaspora. December of 2004 (500.05), \$200 would amount 100,000 AMD; with current exchange rate \$200 amounts to approximately 60,000 AMD. A 'loss' of **40,000 AMD** per monthly remittance has caused family members to send greater amounts to compensate for micro-economic instability.*

An investigation of the AMD/USD exchange rate reveals a suspicious trend which can be the cause of such social buzz. Going back to April-03 until present, individuals feel the impact to a much greater extent, with the dram appreciating *nearly 50%*. Family members who were receiving remittances (\$) from abroad, now can only collect half its previous monetary value, leaving room for mass social grievances.

Money Market~ Resolution of Campaign Expenditures

A thorough search of the investing climate in Armenia will show that the money market is the most profitable and can yield tremendous returns. Not even in the housing market does one see such a *rate of return, 24.35% or 32.81%*.

The 2008 Presidential election campaign expenditures reported by Transparency International³ reflect monetary *discrepancies* and seem to lack *social credibility*. Implicating that although presidential candidate Sarkissian's total campaign expenditures amount to 92,704,320 AMD (approximately \$300,000) the impact of his campaign was socially ***much more widely*** felt. If one wished to resolve debt amounting to 92,704,320 AMD, an investment in the money market of 381 million AMD (\$1,269,052) at 24.35% could be made; while at 32.81% an investment of 283 million AMD (\$941,829) would have to be made. (Transparency International, 2008)

With the presence of oligarchs and *shadowy actors* within state structures, what could be merely anecdotal investments and imaginary political plots propagated by national dissidents become something worthy of analysis and evaluation. *The government's inability to put in place measures that better define and respond to such economic changes can be considered the **main cause** of the mass discontent and political dissonance.*

³ Amalia, Konstanyan, "Monitoring of Presidential Elections Campaign Finance and Public Procurement in 2008 in Armenia" *Transparency International Anti-corruption Center Armenia*, < http://www.transparency.org/global_priorities/nc_projects_and_activities_database/armenia_2007_elections_monitoring> accessed on August 5, 2008.> accessed on August 5, 2008.

The economic insecurity of the 'People' has been known to shift and split political structures. Every revolution of its kind has seen a precursor of social (economic) woes. Armenia is no less excluded to the occurrences of history; that is, *'if change can not come from up-down, than it will come from down-up.'*

Remittances

A careful study of foreign remittances can reveal, and possibly conclude, several problematic discrepancies within the Armenian domestic economy and its connections both socially and politically.

Remittance is defined as *'monetary funds sent by individuals working abroad to recipients in the country that they came from.'* The definition does present a number of theoretical considerations that elaborate on what monetary flows are included:⁴ (USAID/Armenia, 2004)

- *Source:* Remittances can include funds from those working temporarily abroad, or also from those who have permanently emigrated and become legal residents of another country.
- *Decision-maker:* Funds should be counted as remittances only if the receiving household has full authority to decide on how the funds are used.

Thus the definition, as outlined by the report on *Remittances to Armenia* is, **all funds sent by Diasporan Armenians 'new' or 'old' Diaspora, to households in Armenia without the intervention of a third-party institution making decisions on amount and allocation of funds.** Exclusions would include humanitarian assistance, as this is channeled through governmental or non-governmental institutions.

To allow for a better understanding of remittances in Armenia I will present data that was gathered through the report on *Remittances to Armenia*. Data from the Armenian household survey reveals that 18% of households (2002) in Armenia were receiving remittance income, the average amount was estimated to be at \$200 (585.10, 117,020 AMD). Calculations revealed that for 2003 total remittances amounted to \$324 million (see below). This survey, which can be said to be *fairly conservative*, revealed a greater amount than the \$183 million that was officially reported.

Official Armenian population 3,000,000

Average number of people per household 4

Number of Armenian households 750,000

% of households receiving remittance transfers 18%

Number of households receiving remittance transfers 135,000

Monthly value of remittance transfers to a household \$200

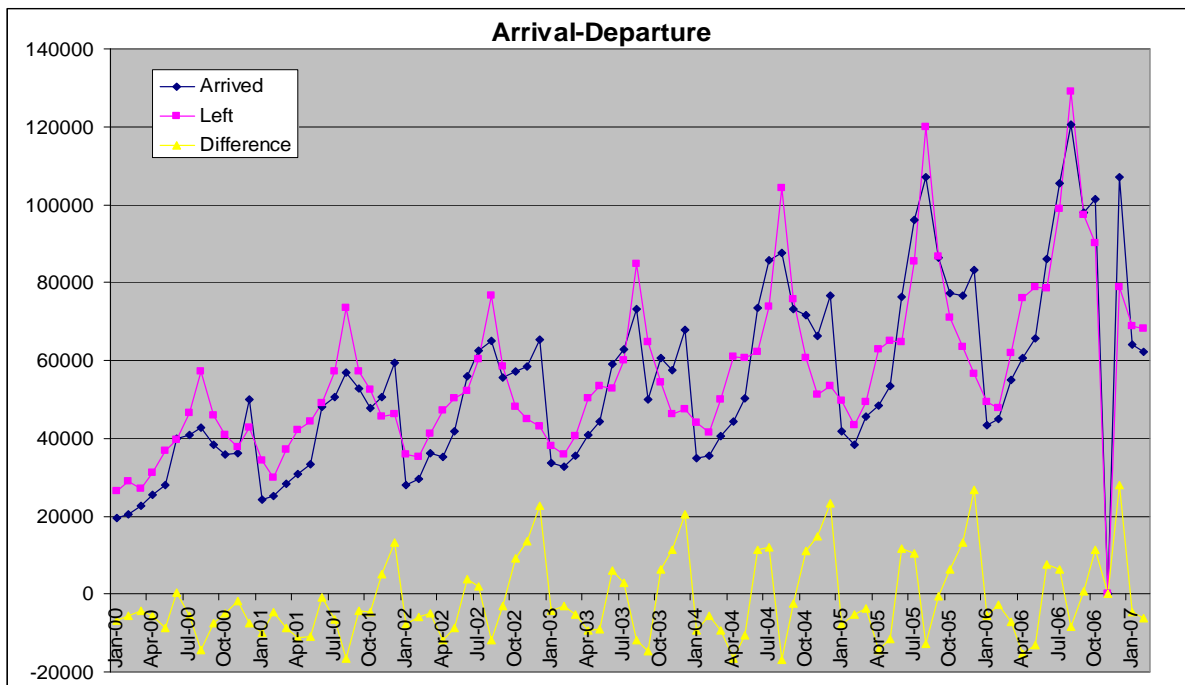
Aggregate value of emigrant remittance transfers \$324m

Several critical observations can be made from the following analysis. First are the quantitative state indicators that are used and their lack of credibility. The official Armenian population which was stated to be at 3 million can be disputed, with some institutions stating 3.2 million and others stating as little as 2.1 million. The percentage of households receiving remittances seems to be taken much too conservatively and can be said to be under-inflated with other data suggesting 20%, 37%. The monthly value of remittance transfers can be said to be too linear and does not reflect the differing amounts that enter Armenia.

⁴ Bryan, Roberts PhD, "Remittances in Armenia: Size, Impacts, and Measures to Enhance their Contribution to Development," *USAID/Armenia*, October 1, 2004, <http://pdf.usaid.gov/pdf_docs/PNADB948.pdf> accessed on August 5, 2008.

Figure 2 displays the number of arrival and departures. The graph is reflective of seven years and shows the volatility of migratory patterns. From 2000 there has been a collective increase in the number of people who have entered Armenia as well as the number of people who have stayed (see below). *We know that this is due to an increasing tourism infrastructure as well as a tightening of visa regimes throughout the U.S and Europe* (U.S. rejection rate for past years has been in the 60 percentile range).⁵ (Armenian Economic Association, 2008)

FIGURE 2: ARRIVAL-DEPARTURE ANALYSIS



[From the months of Jan-00 until Feb-07, the following graph outlines the number of individuals that entered and departed (by air, rail and land transport) from Armenia. The sum of the residuals equals -139,103.]

Year	2000	2001	2002	2003	2004	2005	2006
Balance	-72205	-60389	-2719	-10161	2060	13016	2228

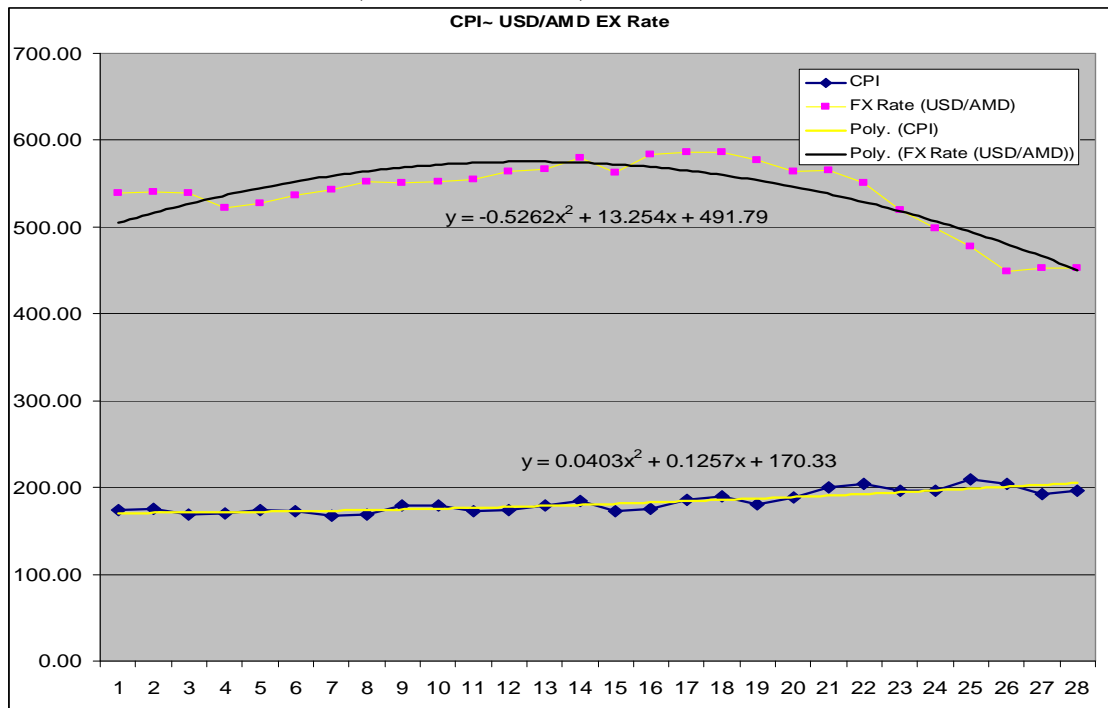
It must be mentioned that calculating the remittance rate of Armenia is very intricate and can result in a very erroneous number. Nonetheless, the wide-ranging effect of remittances is very widely felt and can be said to **greatly impact** the micro-economic viability of Armenia. If values calculated by the abovementioned report are to be considered than a very simple conclusion can be come to, if in 2003 the aggregate value equaled \$324 million, at an exchange rate of 585.1AMD. Due to Dram appreciation aggregate remittance loss by 2008 amounts to **-91.5 billion AMD**; put into perspective, 91.5 billion AMD in 2003 is approximately **-\$156 million loss** (social, micro-economic).

The social impact of such a monetary loss, even theoretical, is greatly felt. There have been relatively little adjustments in the prices of household goods, with CPI and inflationary indexes showing a growth in the prices of goods especially staple items.

⁵ “Economic Data: Arrivals-Departures,” *Armenian Economic Association*, accessed August 5, 2008.

Figure 3 demonstrate the current trend of the historical USD/AMD exchange rate alongside the CPI (consumer price index). The exchange rate has a negative trend ($y = -0.5262x^2 + 13.254x + 491.79$) while the CPI has a complementing positive trend ($y = 0.0403x^2 + 0.1257x + 170.33$). This *visually reflects* the growing social criticism of the government’s fiscal and monetary policies. *Remittance rate has devalued while the price of consumer goods and services purchased by households has risen.* (Armstat.com, 2008)

FIGURE 3: (AMD/USD – CPI) REGRESSION ANALYSIS⁶



[For better comparison, both the CPI and USD/AMD rate are displayed on one chart. The FX Rate *measure* is in AMD per US Dollar, while the CPI is measured according to its *index units*]

Remittances, AMD Appreciation and Social Impact

It is widely known that in Armenia there is a presence of monopolistic powers that control wide ranging parts of the Armenian economy. These oligarchic and ‘criminal’ forces, who through political connections within state structures and the help of state sponsorship, have monopolized staple foods such as *sugar, wheat, flour, rice* including energy resources such as *natural gas and petroleum imports*. A certain assessment must be made, if these ‘il-legal forces’ were to monopolize DVD players many economic analysts would be more sympathetic, since as an individual of society one could ‘possibly’ live without a DVD player and other national commodities that are not necessities.

However, the monopolizing of staple foods and energy products can have wide ranging effects on the ‘social psychology.’ An increase in the price of bread has a resounding effect on every individual and historically has shown to *mobilize* ‘disgruntled forces,’ because when one is hungry *‘he thinks with his stomach and not with his head.’* U.S. Public administration shows us

⁶ “Main Statistical Data,” *National Statistical Service of the Republic of Armenia*, < <http://www.armstat.am/en/>>, accessed on August 5, 2008.

that a welfare regime or food stamps are not a matter of a ‘big heart’ but rather to protect the property rights of individuals from economically vulnerable ‘thieves.’

The *usurpers* of the People do not seem to have better thought out a strategic plan, since some would see them as ‘digging their own grave.’ Opposition forces mustn’t look far to show gratitude for their newly found ‘*civil society*,’ but rather shake the hands of the ‘National Get-together,’ and thank them for illustrating a peoples ‘mobilization’ with their greediness and ignorance. The ‘president’ may be the strongest figure in the country but never as strong as God, for the French would say ‘*vox populi, vox Die*,’ ~ *the voice of the people is the voice of God*.

\$USD Volatility

In general, the volatility of the USD has been witnessed throughout the world. The domestic trend of the AMD/USD exchange rate reflects an equally volatile path, making reference to the fact that the American currency is weak not only in Armenia but throughout the world. World petroleum prices remain astoundingly high (**\$136.23 bbl**; NYMEX crude future)⁷, a surplus of dollars is still observed on the Armenian domestic market and, besides everything else, raising the AMD is an anti-inflationary measure. (Bloomberg.com, 2008)

Specifically, nations with a sizable Diaspora have had twice the trouble, with both the volatility of the USD as well as remittance rate and surplus of USD making a tremendous impact. Economic studies reveal to us that when the economy is in surplus of a foreign monetary denomination there is seen a downward pressure on the value. Simply stated, any Armenian can attest to the fact that several years ago large transactions were conducted with USD whereas now the USD is hardly every present in transactions big and small (in monetary value).

Furthermore, the effect of remittances and surplus of dollars is intensified by a number of theoretical considerations which include:

- ***The Quantity theory of money*** states that money can lose its value through excessive abundance. The rudimentary theory goes on to state that the *source of inflation* is fundamentally derived from the *growth rate of the money supply*.
- ***Velocity of money*** is the average frequency with which a unit of money is spent in a specific period of time. Velocity affects the amount of economic activity associated with a given money supply, meaning that within certain theoretical considerations the velocity of money is one of the *key variables determining inflation*.
 - An example of the velocity would be (theoretically) if one was to bring a hundred dollars to Dilijan and spend (inject) the \$100 in a store. The store owner would then not spend the entire \$100 again, but rather would save \$50 and spend the rest on grain. The grain farmer would then spend \$25 on clothing. The clothing merchant would then spend \$13 on food while saving the rest. Thus when initially injecting the \$100 in Dilijan it *theoretically was not simply a \$100 but rather \$188* (\$100+\$50+\$25+\$13).

These economic theories are listed to illustrate that Diaspora remittances economically have a very wide-ranging effect on the macro/micro-economy and monetary cash flows.

If theoretical economic circumstances (velocity of money, quantity theory of money) are the reason for the depreciation of the USD than we could conclude that in Armenia the *exchange rate*

⁷ “Bloomberg.com,” *Bloomberg: Energy Prices*, July 20, 2008, <<http://www.bloomberg.com/energy/>> accessed on August 5, 2008.

crisis is self-inflicted. This being that once the USD/AMD exchange rate fell initially, in-order to compensate for the family monetary loss, migrant workers sent greater amounts (instead of \$200 now \$300). However the *remittance increase to recompense loss actually resulted in a greater flooding of the money market* in Armenia and merely reduced the social impact in the short-term.

As any economist can attest to, economic troubles (recession, inflation, supply depletion, monetary depreciation) can often be a matter of self-infliction. This is why an economist must have a cool head and a smooth tongue. In Armenia further study must be done to analyze if the current status of the economy is the result of such economic phenomenon. In any case it is not a matter of guess-work to understand that these economic occurrences have hurt the People.

Moreover, as one of the top recipients of foreign aid (USAID) per capita, the devaluation of the USD, monopolies of raw goods (metal, wood, cement, etc) and the government's *inability* to aid in the control of consumer prices has resulted in a far resounding domestic crisis.

International Assistance~ Depletion of Monetary Sources

Through the past 16 years, the United States has provided nearly \$2 billion in assistance to Armenia. Among the NIS it is the highest per capita, internationally it is ranked (per capita 2004) as 13th for US aid received (comparative: Israel 6th). ***While within the past 16 years accumulatively Armenia has received more American aid per capita than any other country 'except' Israel***⁸. (New York Sun, 2005)

Background on Armenia can give us a better picture of international assistance to Armenia. Quantitative data provided by Armenia throughout the past years has shown steady economic progress in such faculties as GDP growth and liberalization of economy. Although this does not reflect the true distribution of wealth or GDP (2006~ 13.4%) throughout the economy, it does serve politicians expanding the economic resume of Armenia. ***The Gini Index which is an economic measurement of the inequality of income distribution or inequality of wealth distribution better illustrates the effect of the Armenian economy's growth.*** Each country is valued at between 0 and 100 with '0' representing perfect equality and '100' representing perfect inequality (one person has all the wealth).

Armenia's Gini index is 41 (2004.) and is characteristic of a country where the wealth is relatively undistributed among the people. The 'politically' unattractiveness of such economic indicators is understandable; nonetheless it is of importance to understanding the entire context.

Table 1: US AID (2004).

Country	2004 aid (millions)	Total Aid Rank	2004 Humanitarian Aid (millions)	Humanitarian Aid Rank	Population (thousands)	Population Rank	Per Capita Aid
Armenia	\$73.60	35	\$69.60	31	3,330	132	\$22.10
Azerbaijan	\$53.80	48	\$47.50	46	7,798	89	\$6.90
Georgia	\$107.50	26	\$102.50	23	4,961	114	\$21.67
Israel	\$554.90	6	\$526.90	4	6,030	101	\$92.02

⁸ Michael, Mainville, "Second-Largest Recipients of U.S. Aid, Armenians Fight to Get Ahead," *New York Sun*, August 9, 2005, <<http://www.nysun.com/foreign/second-largest-recipients-of-us-aid-armenians/18286/>>, accessed on August 5, 2008.

Country	Per Capita Aid Rank	Per Capita Humanitarian Aid	Per Capita Humanitarian Aid Rank	Corruption Perception Index	Level of Corruption	Human Development Index	Level of Human Development
Armenia	13	\$20.90	9	2.9	High	0.759	Medium
Azerbaijan	52	\$6.09	46	2.2	High	0.729	Medium
Georgia	14	\$20.66	10	2.3	High	0.732	Medium
Israel	5	\$87.38	2	6.3	Low	0.915	High

[The tables respectively represent figures for 2004. We could conclude that indicators and rankings would be different if the tables were *to show 15 year figures*. Since the information in the tables was collected from a number of sources the website will be listed. <<http://poplarware.com/HodgBlog/wp-content/uploads/2006/10/AidByCountry.xls>>]⁹

With recent economic trends such as the devaluation of the USD/AMD exchange rate, *artificial increases* in raw goods due to state-sponsored monopolies (metal, wood, natural gas, petroleum, etc.), presence of shadow economy, etc., a number of intended projects, such as rural development, in Armenia have been cut (MCC) while those that still remain ‘hanging from a thread’ have been lessened because of monetary losses in exchange rates.

Ter-Petrosyan, the first President of the Armenian Republic stated that ‘Armenia’s international *strength* is in its international *weakness*.’ The words of the first president have gone deaf within the ears of current economic policy decision-makers with the economic climate not being conducive to support foreign assistance projects. Although a string of international financial institutions have lent a helping hand (IMF, WTO, EBRD, ASB, BSEC) to Armenia, the financial help has failed at meeting its intended purpose.

In December of 2005, the U.S. Millennium Challenge Corporation (MCC) approved a 5-year, \$235 million agreement with the Government of Armenia, which focuses on rehabilitation of rural infrastructure including; rural transport infrastructure and rehabilitation of irrigation network. After the events of March 1st we must ask ourselves a question, ‘*why must we worry about democratic indicators when due to appreciation of the AMD, what before would have upgraded 943 km¹⁰ of rural road will now only be 278 km?*’ (America.gov, 2007)

Consequently what ever assistance received in the past might have had a *slight* impact on society, now has no social impact whatsoever. The economic environment has not only dealt a blow to the small business owner, but has also made corruption and bribery less profitable, maybe this was the much talked about Armenia government policy on corruption and bribery reduction... ‘make it less profitable!’

Shadow Economy and State-sponsored Monopolies

Within Armenian official discussions the wide-spread phenomenon of a shadow economy is discussed as though it is a ‘normal’ matter and should not bring surprise to anyone. This ‘lack of surprise’ is also present when ever any discussion of state monopolies arises. Unfortunately for individual consumers these *nicknamed ‘bloodsuckers’* have monopolized commodities that penetrate every corner of the economy. This was done for the past ten years with absolutely no

⁹ Jennifer, Hodgdon, “Aid by Country,” *AidByCountry: Armenia*, 2004, < <http://poplarware.com/HodgBlog/wp-content/uploads/2006/10/AidByCountry.xls>>, accessed on August 5, 2008.

¹⁰ “U.S. Millennium Challenge Corporation Overview,” *America.gov Millennium Challenge Corporation*, May 31, 2007, <<http://www.america.gov/st/texttrans-english/2007/May/20070531132811xjsnommis0.9933893.html>>, accessed on August 5, 2008.

intervention by the government or official bodies, (*intervention not being participation*). But than again we are a Christian nation, *perhaps we should organize a national prayer for economic enlightenment* request his faithful gargin to ask God to strike down these *universal traitors of the people*.

One would share these words of criticism if one understood the economic burden of the people. Currently petroleum prices which are monopolized by a number of individuals from the ‘National Get-together’ are at 440 AMD for one liter. This is \$1.46 per liter, which comes to \$5.56 *per gallon*; this is more than the average price for a gallon of petroleum in the western hemisphere. This artificial rise in prices and the government’s ineptitude in controlling such increases has become the excuse of every business individual to raise prices, with such items as funeral flowers, bottled water and vegetables becoming more expensive.

Certain estimates suggest that the shadow economy of Armenia is a very real factor in Armenia. Numbers calculated for the WTO (World Trade Organization) suggest that *Armenia’s shadow economy was at its highest level in 1999 (87.7% of the official GDP)*.¹¹ The lowest level of shadow activities was recorded in 2003, estimated at around 39% of the official GDP. Since these are based on tax calculations the magnitude of the shadow economy should be much higher than the presented estimates. (World Bank Armenia, 2005)

Table 2 below shows total government tax revenues as a percentage of the official GDP, I have compared it to three countries to illustrate the status of the *insufficient tax collection* rates in Armenia. Comparatively the discrepancy is a consequence of a number of factors:

- Irregular tax regulations and controls for tax collection
- Undeveloped levers for tax collection
- Tax evasion by lucrative business players within the economy
- Corruption within state agency’s, internal revenue services

Table 2: Tax Collection Rates

%	1996	1997	1998	1999	2000	2001	2002	2003
Armenia	10.8	13.3	14.4	17.3	15.5	14.8	12.5	14.4
Azerbaijan	17.6	19.1	19.5	18.2	20.8	20.5	N/A	N/A
Russia	22.5	33.0	28.6	28.8	31.3	30.9	N/A	N/A

[Source: Armenian Public Expenditure Review, World Bank 2003. Total Government tax revenues in transitioning economies as a percentage of the GDP]

Furthermore this adds a negative aspect to the economic standing of the country, creating a sense of mistrust and bringing about evasive business practices among society. Negative consequences of the shadow economy include:

- As it grows it attracts more and more people, thereby increasing the demand for labor, negatively impacting the efficiency of the labor market in the official economy and distorting resource allocation
- Negates the overall rule of law in the country, undermining the development of the nation
- Demolishes the moral of citizens and just economic players
- Distorts and worsens perceptions of the government, adding mistrust and severing healthy communication practices

¹¹ Bagrat, Tunyan, “The Shadow Economy of Armenia: Size, Causes and Consequences,” *The World Bank Armenia Country Office*, January 15-16, 2005, <<http://www.aiprg.net/UserFiles/File/jan-2005/bagrattunyan.pdf>>, accessed on August 5, 2008.

Political/Economic Comparative Analysis

The extent to which economic forces shape the domestic political situation in Armenia is at times taken for granted by both policy makers and society. This is witness by the very fact that people in Armenia have been known to *lease* their 'life' 8 years for a mere 5000 AMD (\$17.00).

Domestically when the economic situation of a People has become worse so has the political comfort of the governing structure. This is witnessed by the fact that 'revolutions' occur during the winter months: *Orange Revolution, December 26; Rose Revolution, November 23*. Although there can be relatively wide political interpretation of why this happens, one must understand that it is *less about politics and more a matter of meteorology*. The winter brings *cold weather*, high heating prices, economic stagnation and social desperation/vulnerability.

Political stability can not come without economic viability and economic viability can not come without political reform. If an individual is not at work between the hours of 9 am and 5 pm than they will be involved in protesting against every injustice they have experienced in their life, these are all practical public policy measures. Without this balance of forces an unstable domestic environment will be created which will be ripe for 'shadowy players' and 'foreign interventions.' Instead of utilizing measures that instigate fear within People, they must realize that with a better economic policy, a distribution of wealth and etc., *lasting another four years becomes more feasible.*

Conclusion and Recommendations

While the analysis is not fully exhaustive of the economic and political climate in Armenia it does represent a critical basis for continued study of these issues. This is important for revealing economic inconsistencies that could be caused by individual forces acting outside their authority.

Even if one was to prove analytically the *incorruptibility of corrupt* political forces there is still ever present the failure of the current government to respond to rumors regarding such illegal involvement. The problem is further exacerbated by the absence of monetary measures that will ease the drop of the USD/AMD exchange rate or control cash flows. This could be done by further emphasizing the development of the electronic money exchange system.

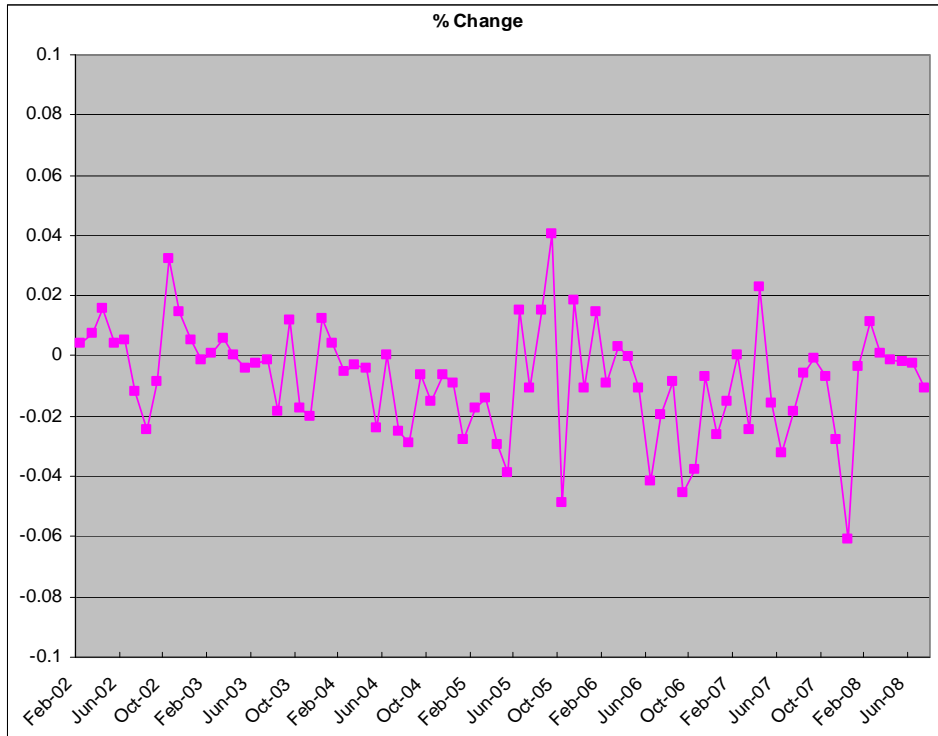
Of further importance is the control of prices in the consumer market, especially those staple foods which constitute the bigger part of individual purchases (bread, vegetable oil, butter, sugar, salt, etc). This is in addition to raw construction resources such as metal, wood, cement, natural gas, petroleum, etc. This could be done by utilizing a few measures:

1. Better economic and monetary policy's that emphasize social development and prosperity
2. Creation of independent division that monitors and controls the rise in consumer prices, including the authority to take legal action against what they see as unfair business practices that are not conducive to a competitive market, such as;
 - a. monopolizing markets
 - b. evasion of tax
 - c. price gouging
 - d. price fixing/tying
 - e. protection of environmental standards
 - f. unfavorable labor practices, etc

3. Legislative countermeasures against political forces that seek to use political authority towards personal business gains, including the creation of a 'legitimate' task forces charged with exposing corruption (unlike previous anti-corruption units which themselves were corrupt).

It is essential to point out that without the *political will* of the governing forces (whoever they may be) no legislative measure, no percentage of GDP growth, no number of analytical papers can cause the economic status of society to change. *It is further necessary to state* that the relationship is *two sided*; that no margin of 'falsified' election victory, no number of official congratulatory letters, and no *foreign* political force can create a domestically stable political environment or in the case of the president, 'a good nights sleep.'

INSERT 1: % Change in USD/AMD Exchange Rate



INSERT 2: Volume Change in USD/AMD Exchange Rate

