

THE DRAWBACKS OF THE ANTI-CRISIS MEASURES IMPLEMENTED IN THE REPUBLIC OF ARMENIA AND THE WAYS TO AVOID MISTAKES IN THE FUTURE POSSIBLE CRISES

Abstract: *The effectiveness of the anti-crisis measures implemented in Armenia is estimated rather low in terms of the anti-crisis measures implemented to ensure strategic and long-term economic growth. Taking this into account, in order to effectively handle future crises, it is necessary to develop a set of specific criteria and guidelines for the selection of the core directions of anti-crisis measures that can be applied in the development of policies aimed at overcoming crises.*

Key words: *State anti-crisis policy, economic crisis, financial assistance, sustainable economic growth.*

In order to overcome the global financial and economic crisis, the Government of the Republic of Armenia has elaborated and implemented the anti-crisis program as was the case in many countries around the world. Taking into account the impact of the global crisis on the Armenian economy, the response of the anti-crisis policy of the Government of Armenia was directed not to the strengthening of financial institutions and safeguarding from possible risks but they were directed to the promotion of economic activity. The main principles of anti-crisis policy were:

- *Strengthening of macroeconomic stability through financial stability;*
- *Effective exchange rate policy implementation;*
- *Provision of effective communication between society and business;*
- *Expansion of monetary and fiscal policies;*
- *Implementation of large-scale infrastructural projects;*
- *Improving the business environment and providing temporary support to business;*
- *Priority of implementation of socially-oriented programs².*

The Armenian government's largest anti-crisis measure involved the support to SMEs amounting to 54.6 bln. AMD, which makes 37.7% of the economy's total anti-crisis support. The measures involved the financing of business projects submitted by business intermediaries, subsidization of SME loans, and direct lending.

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² Governmental Anti-crisis Measures Program, 2009, <http://www.gov.am/files/docs/1526.pdf>.

The next major step was providing the population with the access to credit resources. For this aim 42 bln. AMD was allotted which constitutes 29% of the total anti-crisis support allocations. This direction has been focused on the provision of commercial banks and financing organization with the possibilities for consumer loans, car loans, loans for repair and reconstruction of blocks of apartments and private residential premises.

According to the volume of allocations, the next direction was the provision of financial support to large-scale enterprises, 38.9 bln. AMD or 26.8% of the total anti-crisis support allocation. In this direction the financing of enterprise business projects has been implemented.

Infrastructure financing, which was mainly driven by road construction, amounted to 8 bln. AMD or 5.5% of the anti-crisis allocations. 1% of the total anti-crisis allocations or 1.5 bln. AMD were allocated to the support of farms, including subsidizing of credit interest, by providing financial assistance to develop cereal crops in highland and border communities³.

By observing the main directions of anti-crisis measures, one can conclude that the main advantage of the RA anti-crisis regulation was the complex approach to the solution of the economic crisis to overcome the crisis and implementation of a wide spectrum of measures in that context.

By analyzing the measures included in the anti-crisis program of the RA Government, it turns out that about 65.5% of them were of selective nature and the remaining 34.5% can be classified as general economic policy measures. It should be noted that the prevalence of selective measures in anti-crisis measures was fraught with many risks, such as improper administration, lack of accountability, and corruption risks.

Thus, the positive and the strong aspect of the state anti-crisis regulation in the Republic of Armenia can be considered the social assistance to the population, reduction of enterprise losses from the crisis, ensuring access to credit resources for the population, financing infrastructure projects. As regards the negative sides, we can mention the non-strategic nature of the latter, the prevalence of selective measures over the package of general stimulus measures, insufficient publicity and lack of transparency of anti-crisis measures, as well as the existence of corruption risks.

It is quite evident that to handle the consequences of crises and enhance the effectiveness of measures, first of all, the fundamental goals that should be aimed at during the implementation of the state's anti-crisis measures should be accurately defined. Particularly, we can mention that there were a number of measures included in the RA Government's package of anti-crisis measures which were reformative, but from the anti-crisis perspectives they were not targeted. In particular, we can bring the tax administration reforms. One of the key measures in this direction is the weakening of the tax burden on the business, as well as the promotion of the

³ Governmental Anti-crisis Measures Program, 2009, <http://www.gov.am/files/docs/1526.pdf>.

aggregate demand at the expense of indirect taxes, which was widely used in many countries and which dropped out in Armenia.

Obviously, the prevalence of selective measures is fraught with many risks, such as inefficient administration, lack of accountability on actual events, and corruption risks. Of course, investments in human capital and development of innovative potential are crucial for the strategic development of the economy. In this regard, the RA Government's anti-crisis package was only limited to the adoption of declarative measures.

It is also worth mentioning that the risks of the RA state anti-crisis regulation were quite high, involving the risks of inefficient administration, non-transparent selection of state-funded SMEs, and the ineffectiveness of spendings on large-scale enterprises (as they are not transparent), the prevalence of selective measures (around 64.5% of anti-crisis support measures were classified under the aforementioned types). This naturally reduces the effectiveness of the anti-crisis measures, besides, they are again fraught with the loss of control and the risks of ineffective use of allocated funds. In fact, the RA Government did not use any specific mechanisms to control the above-mentioned risks.

The effectiveness of the anti-crisis regulation in Armenia can be estimated as low, first of all because of the fact that the measures failed to help the main macroeconomic indicators of the economy recover or at least to equate them with those of the post-crisis phase. Moreover, the anti-crisis measures lacked strategic element which could eventually ensure long-term growth of economy.

Taking into account the above mentioned, we believe that in order to effectively handle the future crises, it is necessary to develop a set of clear criteria and guidelines for selecting the key directions of anti-crisis measures that can be applied in the development of anti-crisis policy aimed at overcoming crises. Those standards may be the following:

- *Stimulation of the real sector of the economy,*
- *Promoting the aggregate demand;*
- *Financial assistance to crisis-affected companies,*
- *Protection of domestic market and national producers;*
- *Social orientation;*
- *Orientation to the development of scientific, technical and human potential;*
- *Ensuring stability of the financial market and financial institutions;*
- *Ensuring access to credit resources;*
- *Enhancing the system of state guarantees;*
- *Effective distribution and redistribution of state resources.*

As for the principles of the state anti-crisis policy, the following criteria are to be taken into account:

- *Targetedness;*
- *Scientific justification;*
- *The existence of a relevant legislative framework;*

- *Enhancing awareness about the anti-crisis measures;*
- *Transparency and publicity;*
- *Financial controlling;*
- *Monitoring and regular review of measures depending on the current economic situation.*

On the basis of the international experience of anti-crisis measures and the comprehensive analysis of the causes and impacts of economic crises, as well as on the basis of the above mentioned criteria and principles, we can provide a comprehensive description of the key directions and the complex of measures which within a reasonable timeframe can help the state effectively overcome the negative impacts of the economic crises, in the meanwhile avoiding the possible aggravation of the crisis and creating favorable conditions for the economic growth in the long run.

These directions are as follows:

1. Financial support to companies operating in the real sector of economy:

- Support to credit expansion;
- Growth of capitalization of companies,
- Expansion of the system of state guarantees,
- Direct budget financing of organizations.

It should be noted that this direction was paid considerable attention to during the implementation of the RA Government's anti-crisis package. As already mentioned above, the most extensive direction of the anti-crisis measures was the financial support to SMEs. The main disadvantages in this respect were the non-transparency of SME selection, as well as the fact that most of the funds received by the organizations as financial support were not invested in the real sector of economy, but were directed to the repayment of overdue loans.

2. Reduction of tax burden on businesses, including:

- Reduction of corporate and indirect tax rates and elimination of separate taxes;
- Application of different tax rates;
- Reduction of customs duties and elimination of certain customs duties;
- Simplification of tax administration and increase of transparency;
- Ensuring competitive environment.

3. Promotion of gross demand, including:

- Reduction of indirect taxes and application of their differentiated rates;
- Reduction of tax rates on natural persons;
- Expansion of government procurements and orders;
- Promotion of consumption expenses of the population.

4. Reducing social tension, including:

- Maintaining and expanding of the funding for social programs;
- Increase of unemployment benefits;
- Implementation of targeted employment programs;
- Organization of professional training of employees⁴.

5. Science and innovation financing, including:

- Development of energy-saving and resource-saving technologies;
- Clean Technology Development;
- Promoting innovations.

The aforementioned directions concern both fiscal and monetary policy spheres.

Touching upon the possible risks of the anti-crisis policy, the following can be distinguished:

1. A sharp reduction in the available financial resources is conditioned by a sharp drop in tax receipts and the increase of allocations to support the social sector and financial institutions.

2. Predominance of selective anti-crisis measures, without the establishment of effective control mechanisms, reduces the effectiveness of the measures and entails corruption risks. Additionally, the prevalence of these measures may require substantial financial resources that could otherwise be directed toward developing those strategic spheres that can provide long-term economic growth.

3. Reducing the financing of developing and effective sectors as a result of the lack of financial resources, which can lead to a decrease in the efficiency of these sectors.

4. Risks arising as a result of inefficient administration, lack of accountability, non-transparency, which largely affect the motivation potential for implementing the necessary measures, deprive the authorities of feedback from the businesses and the society, which naturally affects the effectiveness of anti-crisis measures.

In order to neutralize the aforementioned risks, it is necessary to improve the processes of the selection and implementation of measures taken within the framework of the anti-crisis policy, to introduce a system of supervisory control over them, establish clear requirements for companies receiving financial assistance to ensure accountability and transparency of their activities.

Obviously, the improvement of the anti-crisis administration measures can play an important role in neutralizing the above-mentioned risks and increasing the effectiveness of anti-crisis measures. In this direction we think it is necessary:

- to form a state-business environment-society trilateral active cooperation;
- to make the processes of elaboration and implementation of anti-crisis measures more justified, public and transparent;

⁴ Sargsyan KS – On The Issue of Enhancing the Effectiveness of State Anti-Crisis Policy – “Scientific” NAS RA, Yerevan, 2016, 371–374 pp.

- Develop clear mechanisms for the implementation of anti-crisis measures, including the provision of financial assistance. This process should be carried out through an active dialogue with the businesses and the community representatives, entailing wide discussions of anti-crisis programs, concepts and legal documents. At the same time, it is important to receive public feedback on these activities, their implementation and normative acts from the business representatives.

- Establish strict time frames for the implementation of measures, set specific criteria for interim and final measurable indicators that can be monitored by the business representatives and the public⁵.

An important issue for increasing the effectiveness of anti-crisis measures is the establishment of the database for the assessment of anti-crisis measures. As it is evidenced by the studies, in this area, statistic data, legal acts, statements made by government representatives in the mass media, government sessions, speeches of government officials, press conferences, public discussion are the main channels through which the relevant information is disseminated. The transparency of the Government's anti-crisis measures can be ensured by providing complete information on the implementation of these measures through permanently operating platforms. The latter will contribute to the strengthening of people's and business's trust in the government, which, in its turn, will promote the atmosphere of positive expectations.

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⁵ Sargsyan KS – On The Issue of Enhancing the Effectiveness of State Anti-Crisis Policy – “Scientific” NAS RA, Yerevan, 2016, 371–374 pp.