

**ЭКОНОМИКА**

**Fiscal policy as a factor of accelerating economic growth  
(example of Armenia)**

*Melkonyan Georgi A.*

*Russian-Armenian University,*

*Department of Economics and Finance, master student (Yerevan, RA)*

*georgi.melkonyan@gmail.com*

UDC 338.22.021.2

**Key words:** fiscal policy, public debt, state budget, financial sector.

**Ֆիսկալ քաղաքականությունը որպես տնտեսական աճի զարգացման գործոն  
(Հայաստանի օրինակը)**

*Մելկոնյան Գեորգի Ա.*

*Հայ-Ռուսական համալսարան, Տնտեսագիտության և ֆինանսների ամբիոն, մագիստրանտ (Երևան, ՀՀ)  
georgi.melkonyan@gmail.com*

**Ամփոփագիր.** Հարկաբյուջետային քաղաքականությունը կարող է խթանել տնտեսական աճը և զարգացումը մի շարք տարբեր ուղիներով: Այս ուղիները ներառում են մակրոտնտեսական (օրինակ՝ բյուջեի դեֆիցիտի ազդեցության միջոցով աճի վրա) և միկրոտնտեսական (ռեսուրսների արդյունավետության վրա դրա ազդեցության միջոցով): Բայց կոնկրետ ինչպե՞ս են այդ ալիքներն աշխատում զարգացող երկրներում, մասնավորապես՝ Հայաստանում: Արդյո՞ք արդյունաբերական զարգացած երկրներում այս թեմաների վերաբերյալ հետազոտությունների հսկայական շրջանակից ստացված գաղափարները փոխանցվում են զարգացող երկրներ:

Մակրոտնտեսական տեսանկյունից, ինչպես և հարկաբյուջետային քաղաքականությունը, այսինքն՝ բյուջեի ցածր դեֆիցիտը և ցածր պետական պարտքը, տնտեսական աճի հիմնական շարժիչ ուժն է, որն իր հերթին շատ կարևոր է աղքատությունը նվազեցնելու և սոցիալական արդյունքները բարելավելու համար: Բյուջեի փոքր դեֆիցիտը նաև նվազեցնում է տնտեսական ճգնաժամերի վտանգը, որն առաջանում է կառավարության՝ իր պարտքը սպասարկելու ունակության վերաբերյալ մտահոգություններից: Դրանք կանխում են տոկոսադրույքների բարձրացումը այնպիսի մակարդակների, որոնք կրճատում են սոցիալական կարևոր ծախսերը և ապահովում են, որ պարտքը մնա այն մակարդակի վրա, որը համարժեք է այդ պարտքը սպասարկելու երկրի կարողությանը: Իրոք, նման ճգնաժամերի բացակայության հետ կապված մակրոտնտեսական կայունությունը բերում է բազմաթիվ օգուտներ:

**Հանգուցաբառեր՝** հարկաբյուջետային քաղաքականություն, պետական պարտք, պետական բյուջե, ֆինանսական հատված:

**Налоговая политика как фактор ускорения экономического роста  
(на примере Армении)**

*Мелконян Георгий А.*

*Российско-Армянский Университет, Кафедра экономики и финансов, магистрант (Ереван, РА)*

*georgi.melkonyan@gmail.com*

**Аннотация.** Фискальная политика может стимулировать экономический рост и развитие по целому ряду различных каналов. Эти каналы включают макроэкономические (например, через влияние дефицита бюджета на экономический рост) и микроэкономические (через его влияние на эффективность использования ресурсов). Но как именно эти каналы работают в развивающихся странах, в частности в Армении? Передаются ли идеи, почерпнутые из обширного массива исследований по этим темам в промышленно развитых странах, в развивающиеся страны?

С макроэкономической точки зрения разумная налогово-бюджетная политика, то есть низкий бюджетный дефицит и низкий уровень государственного долга, является ключевым фактором экономического роста, что, в свою очередь, очень важно для сокращения бедности и улучшения социального результата. Небольшой бюджетный дефицит также снижает риск экономических кризисов, вызванных опасениями по поводу способности правительства обслуживать свой долг. Они предотвращают рост процентных ставок до уровней, которые сокращают критически важные социальные расходы, и обеспечивают сохранение долга на уровне, соответствующем способности страны обслуживать этот долг. Действительно, макроэкономическая стабильность, связанная с отсутствием таких кризисов, приносит много преимуществ, включая более высокие темпы инвестиций.

**Ключевые слова:** фискальная политика, государственный долг, государственный бюджет, финансовый сектор.

At the beginning of this millennium, when the crisis of "virtual websites" was successfully overcome, in 2001 the world's superpowers, especially the US and to some extent the EU countries, began to pursue expansionary fiscal and monetary policies in order to further stimulate the economy and ensure post-crisis economic growth. The central banks of these countries have begun cutting interest rates sharply to provide the necessary liquidity to the financial markets. This continued until 2004. The main driver of economic growth, the over-expanding fiscal policies of the superpowers, has led to an expansion in global demand. Along with these developments, there have been significant shifts in the financial markets. Banking financial intermediation has rapidly evolved into market-based financial intermediation in many countries.

The rapid emergence of new instruments on the market has led to an increase in financial flows around the world and an increase in the activity of financial markets. Two other key drivers of global transformation have been the rapid pace of globalization of the financial system and the convergence of large and complex financial institutions. The positive side of financial globalization was that financial resources could move quickly from one place to another, entering markets that guaranteed high returns on the one hand and allowed investors to effectively diversify their portfolios on the other. However, this process had one risk and disadvantage: when difficulties arose in the financial market of a country, they could quickly affect another country, which actually happened during the maturation and spread of the crisis.

Large-scale consolidation both in the banking system and in other parts of the financial system has led to the emergence of a number of complex and large financial structures both in the United States and in the rest world. Consolidation in financial markets has created another risk, more specifically, some financial institutions have become too large to be used for the normal functioning of the financial system, and losses from any of them could create problems for the global financial system. In fact, the changes in the global financial system listed above have made a significant contribution to fiscal and monetary expansion around the world. As a result, in the economies of developed countries, and then in developing countries, since 2004, signs of overheating have already begun to appear<sup>1</sup>, which led to a global overheating of the economy.

---

<sup>1</sup> An economy overheats when aggregate demand grows at a rate that exceeds production capacity, producing GDP above current or trend levels, creating favorable conditions for a high inflationary environment.

Since 2004, cracks in all sectors of the world economy and the GDP of developed countries have changed from negative to positive. These trends were observed until 2007 and marked the beginning of the financial crisis. It is noteworthy that, in parallel with fiscal and monetary expansion, the global inflationary environment, especially in developed countries, remained stable during this period, and inflation expectations remained within the target range, which was not typical of the classic stages of overheating. The latter was explained, on the one hand, by growing confidence in the inflation targeting strategy of monetary policy, and, on the other hand, by the rapid development of infrastructure during this period, including especially in the field of information technology, which contributed to low inflation in the context of high economic growth.

Despite the development of the world economy, the expansion of financial resources was mainly concentrated in the real estate markets, which led to a sharp increase in prices and, as a result, the emergence of financial "bubbles".

And what did this mean for developing countries and for Armenia?

Under such conditions, problems were created for developing countries, including Armenia. These economies began to experience significant financial flows, which were the result of an increase in remittances to developed countries, an increase in demand for services, an increase in interest in the assets of developing countries, the influence of third countries, which was more pronounced in our country [1].

Relatively higher economic growth rates in Armenia were explained by the large volume of capital inflows (mainly into the housing sector) compared to the small scale of the economy, the growth of exports of raw materials, a sharp increase in remittances from Russia. However, time has shown that these factors alone are not enough to sustain high economic growth, as evidenced by more detailed studies, especially in the fiscal sector.

The influx generated an unprecedented increase in demand, which also required tight fiscal policy to contain the unprecedented increase in gross demand due to financial flows (Table 1).

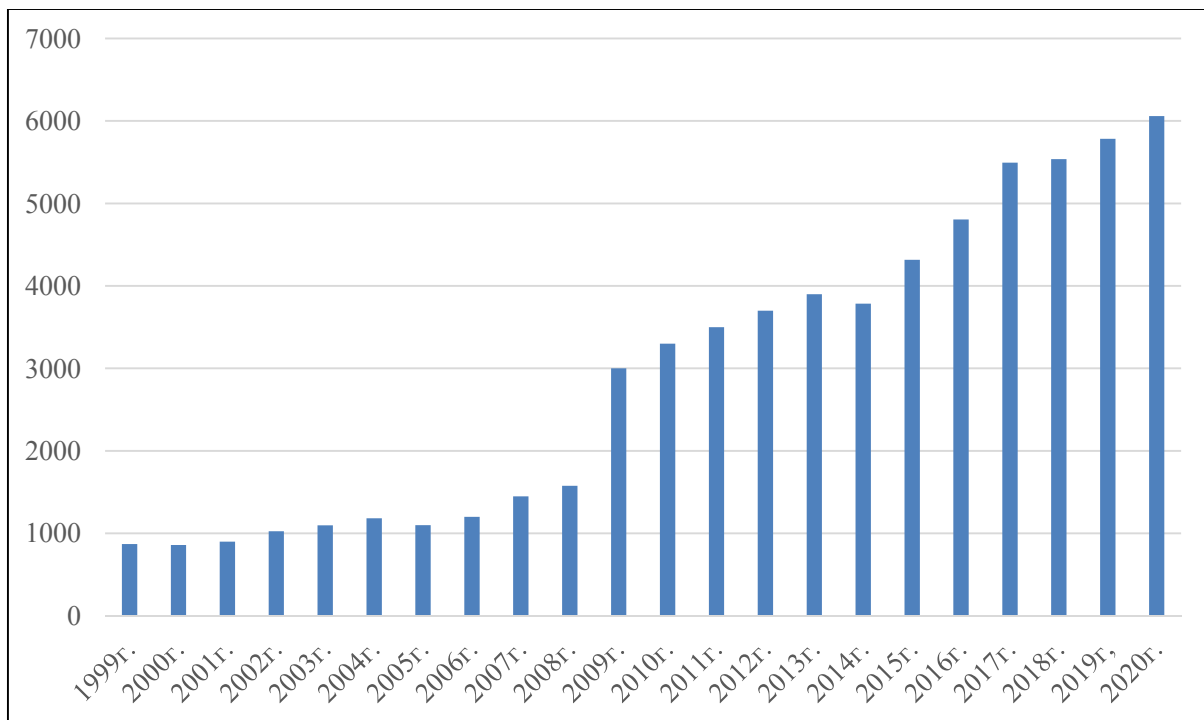
Indicators:	2004	2005	2006	2007	2008
Total income and official transfers	19,1	20,1	20,1	22,2	22,0
Of which taxes and fees	14,4	14,7	14,9	14,5	17,4
Total costs	20,6	21,8	21,4	23,7	22,7
Deficit	-1,5	-1,7	-1,3	-1,5	-0,7

**Table 1.** Summary indicators of the RA consolidated budget for 2004-2008 (in % of GDP)

Source: RA Statistical Committee database [www.armstat.am](http://www.armstat.am)

The period before the 2008 crisis is considered. During a period of counter-cyclical economic growth, the state budget received more liquidity from the economy than it could provide [6]. In other words, the deficit reduction policy was the right direction during the period of economic growth, which allowed for a significant reduction in the debt

/ GDP ratio, creating a basis for attracting additional loans to withstand the crisis without a significant threat to public debt. Thus, if in 2000 the external public debt was 45% of GDP, then in the future this indicator became stable and decreased to 13.2% at the end of 2008 (Figure 1).



**Figure 1.** Public debt of the Republic of Armenia, million US dollars.

Source: RA Statistical Committee database [www.armstat.am](http://www.armstat.am)

Despite the counter-cyclical nature of fiscal and monetary policies, our economy has also experienced overheating. The question then arises, were there any shortcomings in the countercyclical activities of fiscal and monetary institutions?

The results of the analysis show that, in particular, gaps in the fiscal sector were present in the following areas:

Although the fiscal policy at that time was counter-cyclical, it was not completely, and for this it was necessary to significantly increase the level of tax collection, which, on the one hand, would allow

us to have more savings today, and on the other hand, would curb economic overheating.

Perhaps the sharp increase in the level of tax collection has ensured a more intensive implementation of tax and customs reforms, for which favorable conditions are created in a period of economic growth. As a result of the backwardness of structural reforms in some sectors of the economy, there has been a sharp increase in price rigidity - incomplete competition, under these conditions, the resilience of the economy to shocks -

the multiple impact of macroeconomic policies has significantly decreased.

When analyzing fiscal policy, a distinction should be made between discretionary budgetary changes associated with government decisions and periodic changes associated with changes in the phase of the business cycle. At the ascending stage, employment traditionally increases, incomes of individuals and profits of companies increase, which, in turn, leads to an increase in budget revenues and a reduction in budget expenditures. Therefore, in general, *ceteris paribus*, the budget balance can be in surplus. However, it should be noted that in the ascending phase of the business period, the reverse situation is also possible: the budget may be in deficit. Thus, the budget is subject to business cycle fluctuations. Therefore, we believe that the budget itself, with its key indicators, cannot describe the fiscal policy of the state.

Based on the foregoing, it is advisable to divide the budget into two components, the first of which reflects discretionary changes in fiscal policy, and the second - the effectiveness of the presented stabilizers. The latter applies to income tax and unemployment benefits. They stimulate the economy to decline and limit the growth of the economy, thereby stabilizing the economy without government intervention. Therefore, in order to characterize discretionary budget changes, it is necessary to exclude the effect of these stabilizers from the actual budget. Such a budget is usually referred to as a "structural" or "periodic" budget.

The structural budget can be defined as the budget that would have its place in terms of probable output in GDP in the absence of periodic fluctuations [9]. Structural budgeting can analyze the short-term effects of fiscal stimulus, can budget for the medium term, and can pursue a coherent fiscal policy.

In our opinion, institutional rather than macroeconomic factors are the cause of economic decline in the post-Soviet countries.

The implemented fiscal policy should correspond to the innovative development of the economy and create conditions for increasing the economic potential in the long term, which is very important, especially in developing countries, including Armenia. From this point of view, consideration of the problem is also very important.

The role of rethinking the role of fiscal and monetary policy is currently acute around the world. It turns out that in the context of the new events of the last decade, globalization and integration of traditional approaches and tools of economic regulation are not enough to effectively address the problems facing this policy [21].

Since 2004, large positive gaps have emerged in all sectors of the world economy, which have been ignored or insufficiently taken into account by macroeconomic policymakers. The economy of the Republic of Armenia could not stand aside either, the trends in which were observed until 2007 and laid the foundation for the financial crisis.

According to internationally accepted approaches, the assessment of the periods of the Armenian economy shows that in 2000-2021 Armenia was characterized by all 4 phases of the period: activation, growth peak, recession, maximum recession point. Obviously, 2008-2009 was marked by more serious economic fluctuations, which may indicate the coincidence of a longer cycle of economic development and a shorter cycle.

It is also obvious that the structure of the Armenian economy has undergone dynamic changes due to changes in both the external and internal environment. In particular, the main reason for the "overheating" of the Armenian economy in 2005-2008 was a sharp increase in capital inflows into Armenia, which led to an appreciation of the equilibrium real exchange rate and an outflow of the export sector of the economy. On the other hand, the non-export sector of the economy, construction and services, showed high growth rates. The period was also marked by a sharp decline in unemployment and demand-driven inflationary pressures.

#### Bibliography

1. **Adam, Christopher, and David Bevan**, 2003, "Staying the Course: Maintaining Fiscal Control in Developing Countries," paper prepared for the Brookings Institution Trade Forum Conference.
2. **Alesina, Alberto, and Roberto Perotti**, 1993, "Income Distribution, Political Instability, and Investment," NBER Working Paper No. 4486 (Cambridge, Massachusetts: National Bureau of Economic Research).
3. **Bessonov V.A., Voskoboinikov I.B.** Dynamics of fixed assets and investments in the Russian transitional economy. – M.: IET, 2006. 62 p. (in Russian).
4. Database of the World Bank [www.worldbank.org](http://www.worldbank.org)
5. Database of the RA Statistical Committee [www.armstat.am](http://www.armstat.am)
6. **Vasilyeva E.A., Vlasov S.A., Ponomarenko A.A.** Analysis of the Stabilization Function and Sustainability of Government Finances of the Russian Federation // Higher School of Economics Economic Journal. 2009. No 3, pp. 381–404 (in Russian).
7. **Gurvich E.T., Vakulenko E.S., Krivenko P.A.** Cyclic properties of budget policy in oil-producing countries // Questions of Economics. 2009. No 2. P. 48–72 (in Russian).
8. **Dementiev N.P.**, Monetary and Fiscal Policy, Inflation and Financial Stabilization in Russia:

- Modeling, Retrospective Analysis and Multivariate Calculations: Report on "Structural Regularities of Modern Economic Dynamics and Development Strategy of the Russian Economy" (in Russian).
9. Interview with Janos Kornai // What economists think about. Conversations with Nobel laureates / ed. P. Samuelson and W. Barnett. Moscow: United Press, 2009, pp. 109–127. (ISBN 978-5-9614-0793-8). (in Russian).
  10. **Kapelyushnikov, R.** The largest and dominant owners in the Russian industry [Text] / R. Kapelyushnikov // Economic Issues. - 2000. - No1. - P. 99–119. Kapelyushnikov, R. Ownership and control in the Russian industry [Text] / R. Kapelyushnikov // Questions of Economics. - 2001. - No12. - S. 103–124 (in Russian).
  11. **Levinson M.R.**, Reliable fiscal policy based on capital movement tax.
  12. **Lyubimtsev Yu.** Necessity to change financial policy guidelines // The Economist, 2004, No 1. (in Russian).
  13. **Polterovich V.M.** Reform policy, initial conditions and transformational recession // Economics and Mathematical Methods. 2006.T. 42. No 4. (in Russian).
  14. **Polterovich V., Popov V., Tonis A.**, Mechanisms of the "Resource Curse" and economic policy. "Economic Issues", No 6, 2007, pp. 4–27 (in Russian).
  15. **Rider / Afanasiev, M. P.**, Budget policy and the budget process (in Russian).
  16. **Tanzi V.**, Fiscal Policy in the Future: Challenges and Opportunities (in Russian).
  17. **Chistyakova L. A.** Relationship between macroeconomic dynamics and fiscal policy // Bulletin of the Financial Academy, 1998, No 3. (in Russian).
  18. **Artis, M., and M. Marcellino** (2001): "Fiscal Forecasting: The Track Record of the IMF, OECD and EC," *Econometrics Journal*, 4(1), 20–36 (in Russian).
  19. **Balassone F.** Measuring Fiscal Performance in Oil-Producing Countries // Fiscal Indicators. Banca d'Italia. Public Finance Workshop. 2006.
  20. **Beetsma, R., and M. Giuiodori** (2010): "Fiscal Adjustment to Cyclical Developments in the OECD: An Empirical Analysis Based on Real-Time Data," *Oxford Economic Papers*, 62(3), 419–441.
  21. **Bent Hansen** "The Economic Theory of Fiscal Policy" (Paperback - Oct. 10, 2008)
  22. **Blanchard, O., and R. Perotti** (2002): "An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output,"
  23. **Arunatilake, Nisha, Sisira Jayasuriya, and Saman Kelegama**, 2001, "The Economic Cost of the War in Sri Lanka," *World Development*, Vol. 29 (September), pp. 1483–1500.
  24. **Barro, Robert J.**, 1989, "Ricardian Approach to Budget Deficits," *Journal of Economic Perspectives*, Vol. 3 (Spring), pp. 37–54.

Сдана/Հանձնվել է՝ 20.01.2022

Рецензирована/Գրախոսվել է՝ 04.03.2022

Принята/Ընդունվել է՝ 07.03.2022