



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

February 4, 1994

SECRETARY OF THE TREASURY

The Honorable Bob Dole
United States Senate
Washington, D.C. 20510

Dear Bob:

Thank you for your letter describing Armenia's difficult economic situation and calling on multilateral assistance for the country.

We have been closely following Armenia's reform efforts and appreciate its very difficult hardships. For this reason, the United States has led an international effort to meet Armenia's critical medical, food and fuel needs this winter. Moreover, with our urging, the World Bank's Earthquake Reconstruction loan has been scheduled for Board consideration February 1. The United States has also offered Armenia substantial technical assistance, and urged the IMF to continue providing assistance on currency and macroeconomic issues.

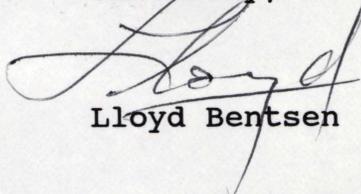
Armenia's economic problems do not all stem from external disruptions, however, but also from its macroeconomic policy management. Armenia's high inflation and rapidly depreciating currency are a result of the Government's large budget deficit and loose monetary and credit policies. It is important that the Government work with the IMF on a comprehensive macroeconomic stabilization program if its economy is to stabilize and the country is to qualify for IFI financial support.

As you know, the IMF and World Bank have a well established policy of not lending to countries where expenditures related to armed hostilities make it unlikely that an economic reform program can be implemented satisfactorily. This is an important policy that Congress played a major role in urging upon the IFIs.

The IMF and World Bank stand ready to assist Armenia, as indicated by the IMF's mission to Armenia this month and the World Bank Board's consideration of the Earthquake Reconstruction loan. We have discussed Armenia's situation with Fund and Bank Managements, however, and both have indicated that they believe the Nagorno-Karabakh conflict remains an impediment to economic reform. They have assured us that they are applying their policy based solely on economic and financial considerations. We have urged the Fund and Bank to continue examining Armenia's macroeconomic situation in order to be prepared to respond quickly when adequate reform is possible.

Thank you again for your interest in this issue.

Sincerely,



Lloyd Bentsen

