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Assessment of the Impact of Fiscal Policy on Economic Growth in the Republic of Armenia

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ABSTRACT

Fiscal policy plays a crucial role in ensuring economic growth and development in the country and overcoming economic recessions. The **subject** of the research is the tax system in the Republic of Armenia. The study **aims** to identify and assess the impact of the fiscal policy on economic growth in the Republic of Armenia. Since the global financial crisis of 2008, the Armenian economy has been in stagnation, reaching pre-crisis GDP levels only in 2018. Both theory and practice point to the ambiguous nature of the impact of fiscal policy on economic growth. At the same time, the 2020 crisis caused by the pandemic exacerbated the situation by focusing the attention of economists on fiscal policy to stimulate the real sector of the economy, which justifies the **relevance** of the current study. The paper's **novelty** lies in assessing the impact of certain types of taxes on the economic growth rates in Armenia. To achieve the goal of the study, the authors use such **methods** as a comparative analysis of foreign studies and systemic and statistical analysis. To econometrically assess the impact of taxes on economic growth in the country, a vector autoregression (VAR) model was applied. As a **result** of the study, the authors found that both tax regulation in general and the individual taxes are restrictive in nature and have a negative impact on economic growth in the country. The authors **conclude** that such a restrictive policy has led to a slowdown in economic growth in the Republic of Armenia over the past decades.

Keywords: State budget; economic growth; taxes; state budget expenditures; fiscal policy; macroeconomic management

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INTRODUCTION

The question of whether changes in fiscal policy can affect economic growth is widely covered in the scientific literature [1–6]. In order to guarantee the nation's economic progress, fiscal policy is important [7, 8]. In the short-term, counter-cyclical fiscal policies support aggregate demand and increase growth during cyclic recessions [9]. On the contrary, budget cuts help to cool the economy in times of unsustainable growth and the risk of overheating. In particular, developed economies have a long history of using taxes and government spending to smooth the business cycle [10]. At the same time, fiscal policy can also have a major impact on medium- and long-term economic growth. This is particularly relevant to developing countries, where the real sector is relatively weak and underdeveloped [11]. For example, public expenditure on infrastructure has greatly intensified

business activity in the economy [12, 13], public spending on education has contributed to the development of human capital, a vital component of long-term growth [14, 15]. However, the tax portion of the budget can cause significant damage to economic growth [16–18], as certain taxes distort the behavior of business entities to some degree. Endogenous growth models [19] prove that fiscal policy will have both a temporary and a permanent impact on economic growth rates. Empirical research, however, gives sometimes unclear results.

The purpose of this study is to identify the impact of tax policy in the Republic of Armenia (hereinafter — RA) on the rate of economic growth.

In the scientific literature, there are many studies on the relationship between taxes and economic growth that show a weak or unreliable relationship [20, 21], revealing strong links [22–26]. Tax policy can

potentially have a major impact on long-term growth [27]. Public policies have a significant impact on economic growth by influencing private incentives for the accumulation of physical and human capital. Even relatively small changes in tax rates can lead countries to stagnation or even regression if this policy eliminates growth incentives.

The scientific literature that is now available can distinguish between long-term and short-term periods of influence when looking at how taxes affect economic growth [28]. The long-term impact of taxes on economic growth can be predicted quite reliably, and in general this relationship corresponds to the theoretical explanation: a reduction in the tax burden in the long-term has a positive effect on the rate of economic growth, and, on the contrary, an increase in such a burden reduces the volumes of aggregate demand. As far as the short-term effect is concerned, its definition appears to be quite problematic.

Among the comparatively recent researches, a key feature has been the theory that tax changes are fairly neutral to the income of the population, since increasing income from one type of tax leads to a decrease in income from other types of tax [23, 24, 29, 30].

The literature review indicates that it can be difficult to determine the exact impact of tax revenues on the rate of economic growth. However, with some certainty, tax policy can influence economic growth in the long term and can be an incentive to sustainable growth.

TAX REVENUES OF THE STATE BUDGET IN ARMENIA

Tax relations in the Republic of Armenia are governed by the Constitution, the ratified international treaties of the Republic of Armenia, the Tax Code and the laws of the RA. The Republic of Armenia has a two-tier tax system, which includes state and local taxes. State taxes include value added tax (hereinafter — VAT), excise tax, tax on profit, income tax, environmental tax, road tax,

turnover tax, patent tax.¹ Local taxes include: real estate tax and vehicle property tax.² In addition to tax payments, fixed payments are also applied in the manner prescribed by the legislation of RA.

In Armenia there are also general and special tax regimes.³ Companies are subject to VAT and/or income tax in accordance with the general tax burden. But there are special tax regimes which, under certain conditions, provide for taxation instead of the above-mentioned types of sales tax and patent tax.

In special taxation systems: 1) in the framework of the organization's turnover tax system, individual entrepreneurs and notaries are subject, *inter alia*, to turnover taxes replacing VAT and (or) income tax; 2) in the framework of the patent tax system, organizations and individual entrepreneurs are subject, *inter alia*, to a patent tax replacing VAT and (or) income tax; 3) in the framework of the family business system, organizations and individual entrepreneurs in the cases established by Chapter 56 of the Tax Code are exempt, *inter alia*, from VAT and (or) income tax and turnover tax.

Since the key task of this study is to try to determine the impact of the tax policy of Armenia on the rate of economic growth, in the framework of this work we have considered the dynamics of key indicators of tax policy in general, as well as individual taxes in particular.

Dynamics of the annual plan of tax revenues of the state budget is presented in *Fig. 1*. As we can notice, in times of crisis, the annual plan and actual implementation differ significantly. However, since 2014, the annual plan has consistently not been implemented.

¹ Tax Code of the Republic of Armenia. URL: http://www.parliament.am/law_docs5/011116HO165_rus.pdf (accessed on 11.04.2022).

² Tax Code of the Republic of Armenia. URL: http://www.parliament.am/law_docs5/011116HO165_rus.pdf (accessed on 11.04.2022).

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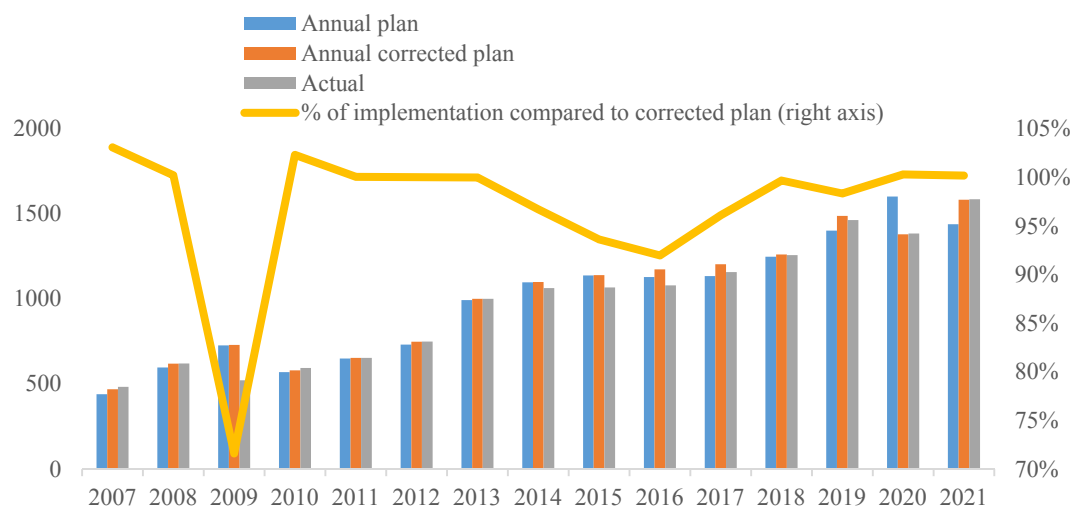


Fig. 1. Tax Revenues and State Duties, in bln AMD

Source: Database of the Ministry of Finance of RA.

This may indicate the inefficiency of tax administration in the first place.

However, the dynamics of tax revenues (Fig. 2), as well as the tax burden relative to aggregate demand, suggest that the significant increase in tax burdens on the economy has led to a reduction in tax collection to some degree.

Overall tax revenue dynamics show steady growth, both in absolute terms and relative to the country's GDP. Important is also how tax revenue dynamics change during times of crises. If in 2009 volumes and the share of tax revenues to GDP decreased, we notice an increase in this indicator during the 2014 crisis. After the global financial crisis, tax policy was largely restrictive, regardless of the cyclical nature of the economy.

When comparing this indicator with data from the world, or groups of countries with medium or high income, we can see that the share of tax burden on the economy in Armenia is much higher than it can be observed in other countries.

The structure of tax revenues is also of interest in terms of economic growth, where three stages can be observed (Fig. 3). The first phase (until 2009) was characterized by a decrease in tax revenue flows, mostly through the VAT. The 2010–2012 period was marked

by a sharp increase in tax revenues, mostly in terms of VAT, but growth in revenues from other types of taxes could also be observed.

Since 2013, we have not only seen an increase in total tax revenues, but also a significant increase in income-tax revenues. This dynamic is due to the tax reform, which combined social deductions from employers per employee and wages, which ultimately increased the income tax base almost three times and allowed a significant increase in gross wages.

Tax reform has had a direct and sufficiently positive impact on the taxation process. The amount of tax payments, as well as the time spent on the preparation and payment of certain taxes, has been significantly reduced (Fig. 4). From the point of view of the beneficial impact on the business environment, positive trends can be noted. However, the lack of significant economic growth during this period suggests that, at least in the medium term, these positive developments have not affected the pace of economic growth.

In Armenia, the prevalence of indirect taxes has been observed for almost the entire period (Fig. 5). However, since 2013 it is possible to consider the alignment of the ratio of indirect and direct taxes in the structure of tax revenues of the state budget of Armenia.

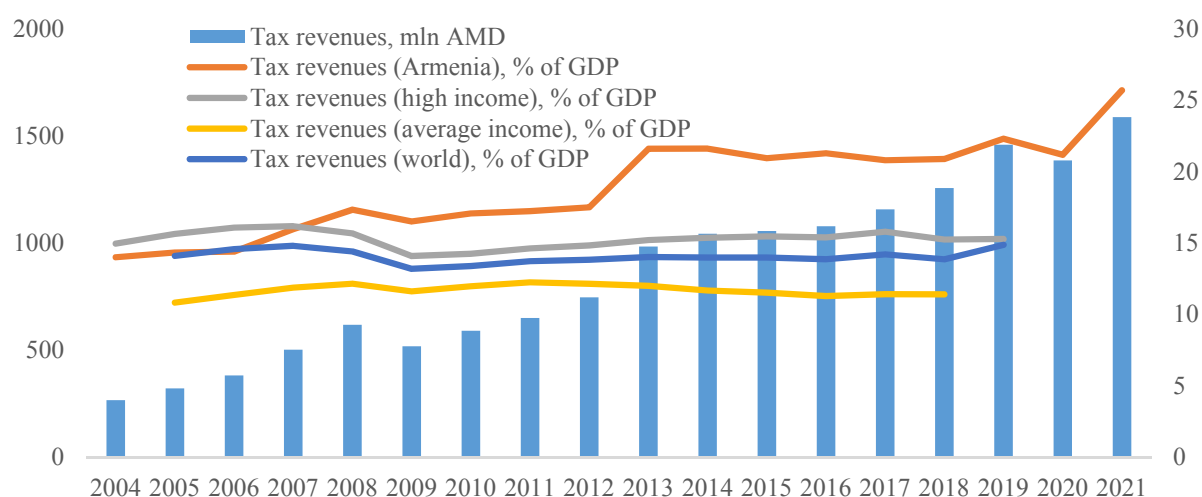


Fig. 2. Tax Revenues, in bln AMD and % of GDP

Source: RA Tax Service database and World Bank database.

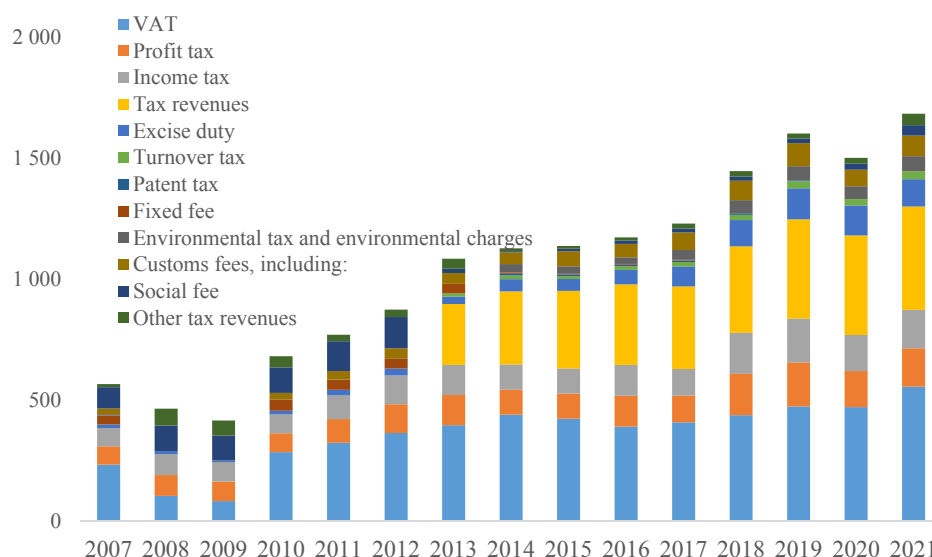


Fig. 3. Tax Revenues in bln AMD, its Structure

Source: Database of the State Revenue Committee Service of RA.

INDIRECT TAXES

The group of indirect taxes in Armenia includes value added tax (VAT), excise duties and turnover tax. The majority of these taxes are imposed by the VAT. The dynamics of VAT over the last fifteen years are represented on Fig. 6. As we can see, the period 2007–2009 was characterized by a sharp decrease in the amount of VAT in the structure of tax revenues. As of 2009, the share of VAT in GDP was 2.7%, and the share in taxes income — 16.1%. Since 2010,

we have seen an increase in both VAT and GDP, as well as in the tax revenues of the state budget.

Since 2012, we have seen a significant decrease in the share of VAT in taxes income (48.8% in 2012 and 25.2% in 2019). However, the share of GDP remains virtually the same, excluding a certain increase in 2021. VAT dynamics show some decrease only in 2020–2021, which can be explained by a pandemic and a decline in worldwide trade turnover.

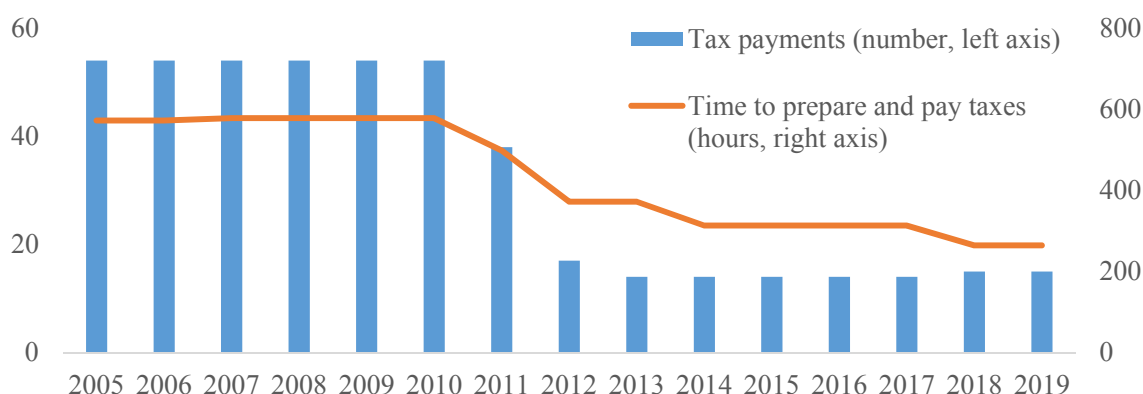


Fig. 4. Tax Payments (Number) and Time to Prepare and Pay Taxes (Hours)

Source: World Bank database.

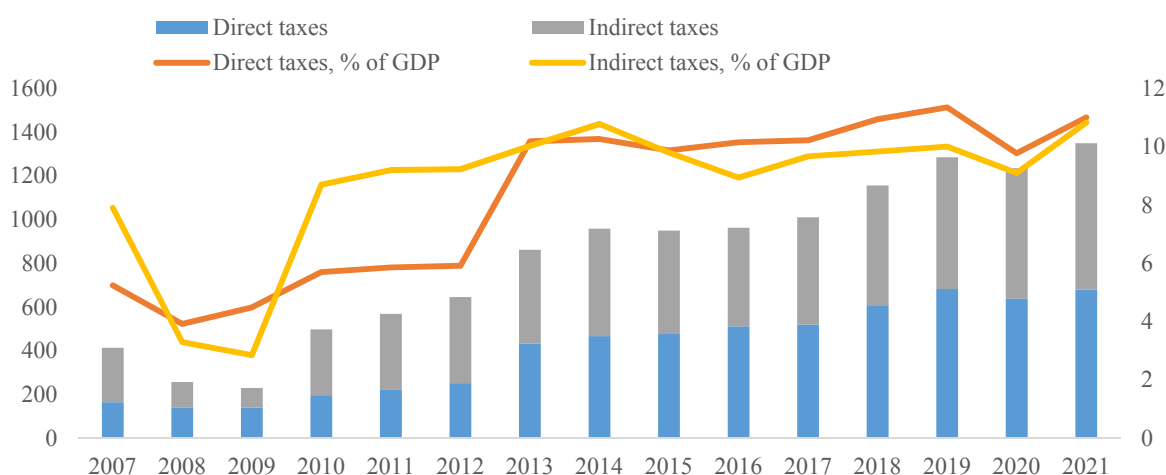


Fig. 5. Ratio of Indirect and Direct Taxes in RA, bln AMD

Source: Calculated by the authors based on the database of the State revenue committee and Statistical Committee of RA.

The dynamics of the amount of excise tax, as well as its share in total tax revenues and in GDP are represented in Fig. 7. As with VAT, we have seen a rise in excise tax revenues starting in 2014, and a significant increase in these revenues beginning in 2017. Also, the dynamics of reduction are observed during the COVID-19 pandemic.

The share of excise duties in GDP is rather insignificant and is not more than 1%, so the tax has no direct impact on economic activity through a large tax burden. As for the share of total tax revenues, it was 7.7% as of 2019. It should be noted the noticeable dynamics of the growth of the share of excise duty in tax revenues in the period under consideration, which is due, among other things, to the

increase in the absolute value of the volumes of the excise tax in the last ten years.

Dynamics of turnover tax amounts represented in Fig. 8. As in absolute terms, as in the share of GDP or share of tax revenues of the state budget, we see a noticeable increase. The share of tax on turnover from GDP in 2021 was 0.5% and the share in tax revenues as of 2019–2%.

The dynamics of VAT, excise and turnover tax revenues are marked by significant growth. This is due to both a certain increase in rates and an increase in income from these taxes. This trend also indicates a restrictive policy aimed not only at filling up the state budget, but also at reducing aggregate demand, primarily in terms of population consumption.

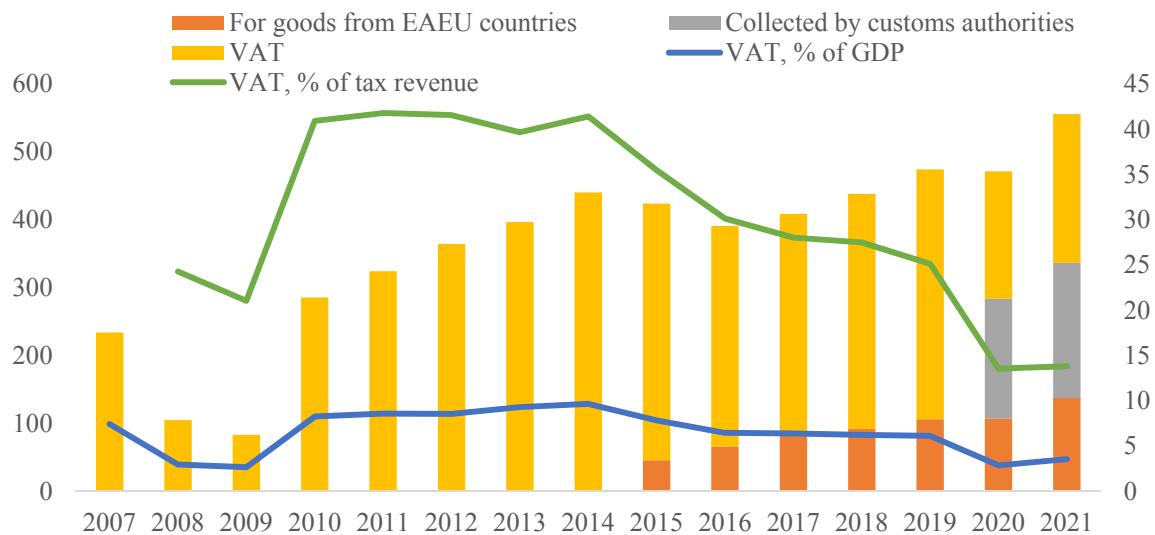


Fig. 6. VAT in bln AMD, and % to GDP and % to Tax Revenues

Source: Database of the State Revenue Committee Service of RA.

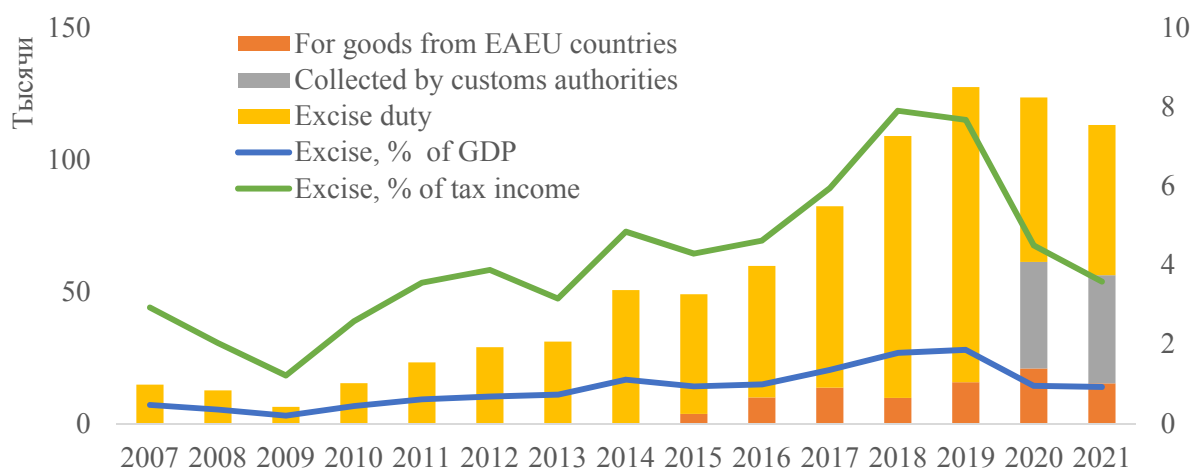


Fig. 7. Excise in bln AMD, and % to GDP and % to Tax Revenues

Source: Database of the State Revenue Committee Service of RA.

DIRECT TAXES

Direct taxes are of much greater importance to the real sector, since they directly affect the producer. On the other hand, the dynamics of direct taxes are more sensitive to changes in economic activity, and in this sense, direct taxation and real-sector activities are more directly interdependent.

Income tax is considered to be the most important tax in terms of economic activity (Fig. 9). The share of income tax in GDP is not very significant and is 2.6% as at 2021. However, the overall trend of the share of

income tax in GDP indicates a slight increase, which also characterizes the deterrent nature of tax policy in Armenia. At the same time, the reduction in the share of income tax in the total tax revenues of the state budget should be noted. As of 2019, this share was 12.4% compared to 15% in 2007.

In terms of dynamics, income tax is of greater interest (Fig. 10). Tax reform in 2012 is significantly increased both income tax and share of budget tax revenues as well as share of GDP. In both absolute and relative terms, we are seeing almost threefold growth. The

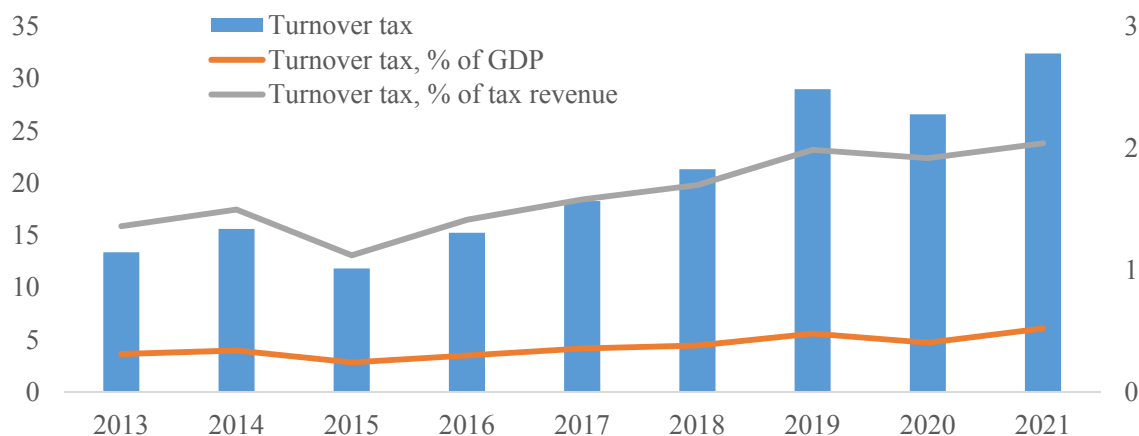


Fig. 8. Turnover Tax in bln AMD, and % to GDP and % to Tax Revenues

Source: Database of the State Revenue Committee Service of RA.

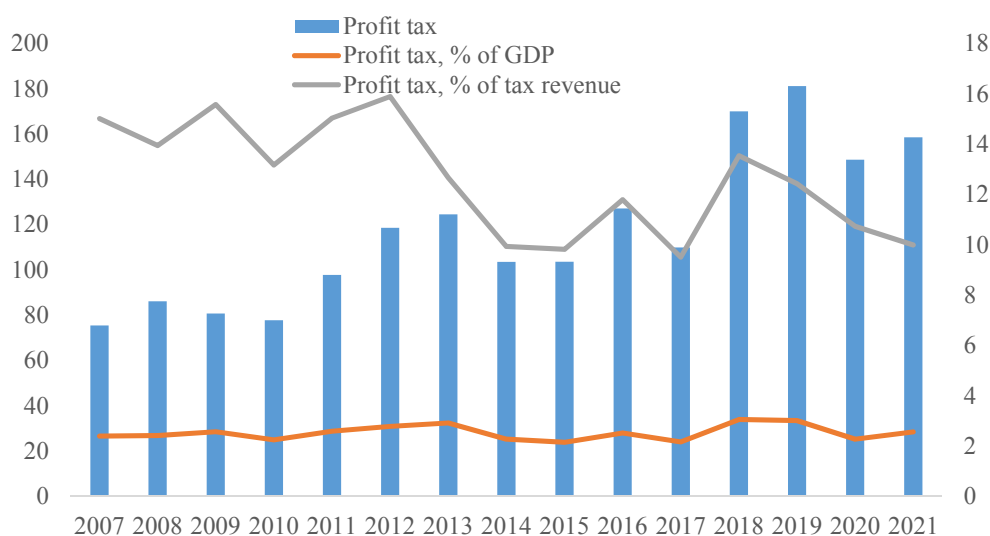


Fig. 9. Profit Tax in bln AMD, and % to GDP and % to Tax Revenues

Source: Database of the State Revenue Committee Service of RA.

overall trend both before and after the income tax reform is accompanied by an increase in the tax burden.

Given the recession that we have seen in the Armenian economy since 2009, we can see a significant increase in tax revenues from the income tax line to the state budget. This fact is also confirmed in *Fig. 11*, which reflects the dynamics of income tax, income tax and capital gains combined. As of 2019, this figure as a percentage of total revenue was 37.4%, compared to 21.1% in 2012 and in 2004–14.5%. Thus, throughout the period, we have observed a deterrent tax policy on virtually

all taxes that have a significant share of tax revenues.

In summarizing the analysis of tax policy in general, it should be noted the clearly dissuasive nature of the past 15 years. Both direct and indirect taxes have the greatest impact on the consumer (or households), which, in the absence of a noticeable growth in economic activity and income of the population, leads to increased income inequality, as well as an increase in poverty levels in the country.

In general, there is a need to assess the role of tax revenues and tax policy in ensuring

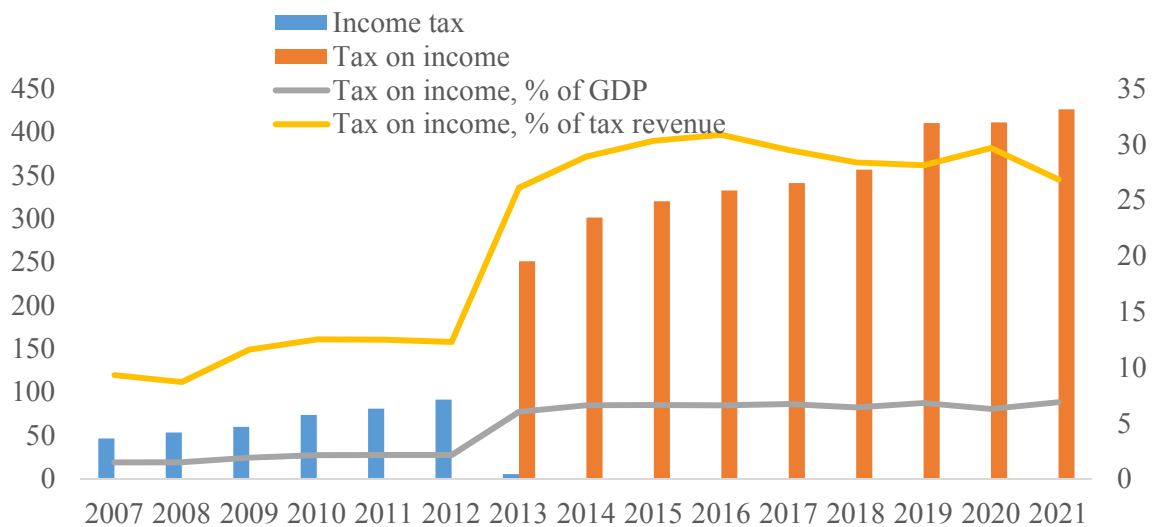


Fig. 10. Income Tax (Tax on Income) in Bln AMD and % to GDP and % to Tax Revenues

Source: Database of the State Revenue Committee Service of RA.

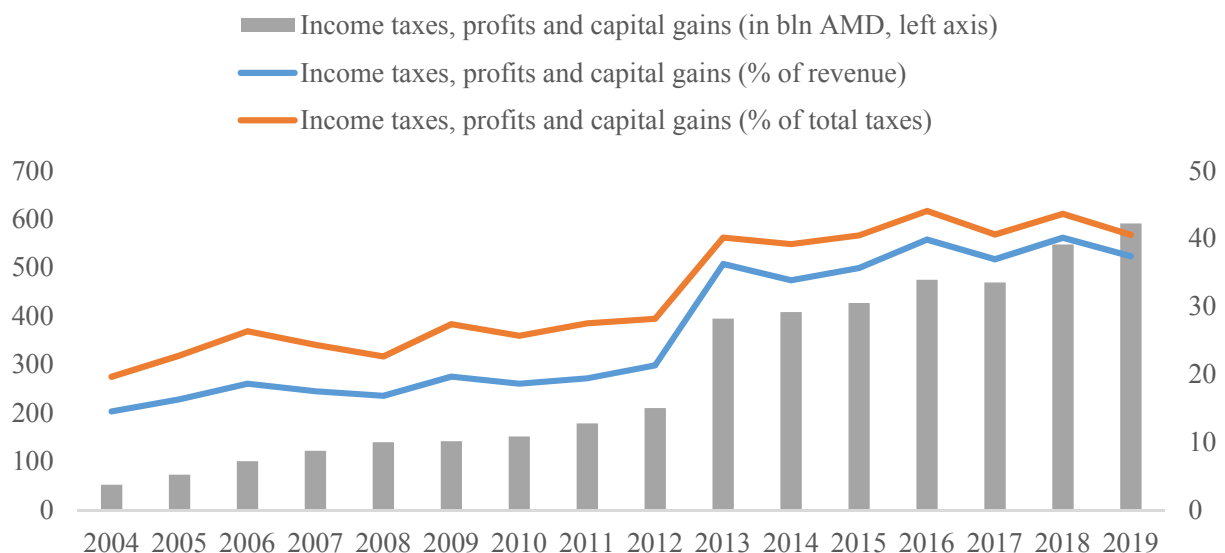


Fig. 11. Taxes on Income, Profits and Capital Gains

Source: The World Bank database.

economic growth, as discussed in the next section of this paper.

TAXES AND ECONOMIC GROWTH IN ARMENIA (MODEL)

As shown above, the analysis of the dynamics of tax revenues to the budget allows to conclude a deterrent policy throughout the period under consideration. Based on this, we argued that deterrent policies had led to a slowdown in economic growth. In this regard,

it is necessary to assess the impact of tax policy on economic growth.

One of the most popular methods of assessing the impact of tax policy on economic growth is the assessment of impact factors using a vector autoregression model (VAR). We have developed a VAR model to assess the impact of state budget tax revenues on Armenian GDP. The study used quarterly GDP data of Armenia and data on all types of taxes from 2008 to 2022. The source of the data on

Table 1

Descriptive Statistics of the Variables

| | GDP | Profit_t | Income_t | VAT | Excise_t | Turnover_t | GDP_RF |
|--------------|---------|----------|----------|---------|----------|------------|---------|
| Mean | 0.0583 | 0.0481 | 0.0726 | 0.0847 | 0.1538 | 0.1204 | 0.0915 |
| Median | 0.06486 | 0.0432 | 0.0618 | 0.0628 | 0.1704 | 0.1676 | 0.0769 |
| Maximum | 0.2107 | 0.6835 | 0.2434 | 0.5033 | 1.1595 | 0.7178 | 0.2754 |
| Minimum | -0.1339 | -0.5635 | -0.1765 | -0.4058 | -0.9066 | -0.4383 | -0.1172 |
| Std. Dev. | 0.0679 | 0.2852 | 0.0804 | 0.1985 | 0.4001 | 0.2607 | 0.0928 |
| Skewness | -0.5752 | 0.0758 | 0.0177 | 0.0507 | 0.0644 | -0.3179 | 0.1057 |
| Kurtosis | 3.5748 | 2.6447 | 4.0308 | 3.2651 | 4.4671 | 2.9071 | 2.9874 |
| Jarque-Bera | 3.6527 | 0.3295 | 2.3492 | 0.1779 | 4.7899 | 0.5679 | 0.099 |
| Probability | 0.161 | 0.8481 | 0.3089 | 0.9149 | 0.0912 | 0.7528 | 0.9517 |
| Observations | 53 | 53 | 53 | 53 | 53 | 33 | 53 |

Source: Calculated by the authors using the EViews 10 econometric package.

tax returns is the database of the Tax Service of RA and the National Statistical Service of RA.

The following variables have been used as endogenous factors affecting economic growth:

- Value added tax (VAT), mln AMD, 2008Q1–2022Q1;
- Profit tax (Profit_t), mln AMD, 2008Q1–2022Q1;
- Income tax (Income_t), mln AMD, 2008Q1–2022Q1;
- Excise tax (Excise_t), mln AMD, 2008Q1–2022Q1;
- Turnover tax (Turnover_t), mln AMD, 2013Q1–2022Q1.

Due to the substantial changes made to the Armenian Tax Code in 2013, problems arose in view of the long time series on income tax. In order to compare the temporary income tax lines up to 2013 with income tax (a single tax including social benefits, in force since 2013) we have summed up the amount of compulsory social benefits and income tax.

As an exogenous variable, it is customary to include in the model of GDP the largest trading partner of the country, which in the case of

Armenia is the Russian Federation. In this regard, we have chosen GDP of the Russian Federation (GDP_RF). We have also included the REM model as a factor reflecting external shocks.

The relevant time series verification showed seasonality in both GDP and exogenous variables and income dynamics for all taxes. In this regard, all timescales were adjusted for seasonality with the Census X-13 procedure, which allowed the timescale to be cleared from seasonality's while preserving the dynamic structure. The following standard procedure has been applied to obtain the stationary time rows: logarithm of the time row using the natural logarithm (e), calculation of the first differences in relation to the corresponding quarter of the previous year. The final time rows were tested for stagnation (ADF unit root test) and normality of distribution (Histogram and Jarque-Bera test). The descriptive statistics of the variables are presented in *Table 1*. The primary statistical data processing resulted in fixed time series with normal distribution from 2009Q1 to 2022Q1 (2014Q1 through 2022Q1) in the case of turnover tax).

In connection with the time series starting with 2013, the impact of this type of tax

Table 2

The Output Results of VAR (3) Model for Tax Policy

| Variables | Coefficient | Standard error | P-value | t-statistics |
|--------------------|------------------|----------------|---------------|-----------------|
| GDP (–1) | 0.200600 | 0.1479 | 0.1773 | 1.35628 |
| GDP (–2) | 0.108847 | 0.14772 | 0.4625 | 0.73686 |
| GDP (–3) | 0.226013 | 0.15438 | 0.1455 | 1.46398 |
| Income_t (–1) | 0.283552 | 0.10351 | 0.007 | 2.7395 |
| Income_t (–2) | 0.000369 | 0.09312 | 0.9968 | 0.00397 |
| Income_t (–3) | –0.220898 | 0.10214 | 0.0323 | –2.16266 |
| Profit_t (–1) | –0.06064 | 0.02479 | 0.0157 | –2.44635 |
| Profit_t (–2) | –0.009534 | 0.02343 | 0.6847 | –0.4069 |
| Profit_t (–3) | –0.02094 | 0.02541 | 0.4113 | –0.82407 |
| VAT (–1) | –0.113832 | 0.05489 | 0.04 | –2.07379 |
| VAT (–2) | –0.017517 | 0.06773 | 0.7963 | –0.25862 |
| VAT (–3) | –0.007524 | 0.05506 | 0.8915 | –0.13665 |
| GDP_RF | 0.425471 | 0.13246 | 0.0016 | 3.21204 |
| REM | 0.094507 | 0.04186 | 0.0256 | 2.25752 |
| C | 0.003897 | 0.01708 | 0.8198 | 0.22821 |
| R-square | 0.686594 | | | |
| R-square adj. | 0.557545 | | | |
| F-statistic | 5.320393 | | | |
| Akaike AIC | –3.348198 | | | |
| Schwarz SC | –2.769069 | | | |
| Durbin-Watson stat | 1.990072 | | | |

Source: Calculated by the authors using the EViews 10 econometric package.

on the GDP of Armenia was considered separately. The analysis revealed that excise tax was not a significant variable for Armenian GDP and was excluded from the model. *Table 2* presents the results of the first vector auto-regression model. We have chosen a three-lag model based on the quality analysis of the model according to the Akaike and Schwartz criteria.

We have carried out all the necessary tests to verify the reliability of the results of the

evaluation of coefficients using the VAR model (3). *Table 1* shows that according to Durbin-Watson statistics, the model has no problem with the autocorrelation of the residues of the regression model. We also conducted a test for heteroscedasticity and normality of residues (*Table 3*). The results show that random model errors are homoscedasticity and the residual distribution is normal.

The VAR (3) model with estimated coefficients is presented below:

Table 3

Tests for Heteroscedasticity and Normal Distribution

| Model | Test | Chi-sq / Jarque-Bera | df | Prob. |
|---------|--|----------------------|-----|--------|
| VAR (3) | Heteroscedasticity | 719.217 | 756 | 0.8276 |
| | Normal distribution (Cholesky of covariance) | 11.47399 | 12 | 0.4888 |
| VAR (4) | Heteroscedasticity | 59.32584 | 60 | 0.5003 |
| | Normal distribution (Cholesky of covariance) | 2.803403 | 4 | 0.5912 |

Source: Calculated by the authors using the EViews 10 econometric package.

$$\begin{aligned} \text{GDP} = & 0.2 * \text{GDP}(-1) + 0.109 * \text{GDP}(-2) + 0.23 * \text{GDP}(-3) + 0.28 * \\ & * \text{INCOME_T2}(-1) - 0.0004 * \text{INCOME_T2}(-2) - 0.22 * \\ & * \text{INCOME_T2}(-3) - 0.06 * \text{PROFIT_T}(-1) - 0.01 * \text{PROFIT_T}(-2) - \\ & - 0.02 * \text{PROFIT_T}(-3) - 0.11 * \text{VAT}(-1) - 0.017 * \text{VAT}(-2) - 0.01 * \\ & * \text{VAT}(-3) + 0.42 * \text{GDP_RF} + 0.09 * \text{REM} + 0.003. \end{aligned}$$

In identifying the impact of the turnover tax on the GDP of Armenia, a similar four-lag model was developed. The results of the VAR model (4) are presented in *Table 4*. The results of the tests for heteroscedasticity and normality of the residue distribution (*Table 3*) show that random errors in the model are homoscedasticity and that the residual distribution is normal. No autocorrelation observed in the model.

Below is a VAR (4) model with estimated coefficients:

$$\begin{aligned} \text{GDP} = & 0.33 * \text{GDP}(-1) + 0.19 * \text{GDP}(-2) - 0.003 * \text{GDP}(-3) - \\ & - 0.06 * \text{GDP}(-4) - 0.06 * \text{TURNOVER_T}(-1) + 0.17 * \text{TURNOVER_T}(-2) - \\ & - 0.21 * \text{TURNOVER_T}(-3) + 0.1 * \text{TURNOVER_T}(-4) + \\ & + 0.35 * \text{GDP_RF} + 0.11 * \text{REM} + 0.006. \end{aligned}$$

The results of the econometric analysis show:

- excise tax does not affect the GDP of Armenia;
- tax on income has a significant impact on the GDP of Armenia with a 5% level of significance. The inclusion of 1% tax on income in the state budget leads to a 0.28% increase in GDP in the first quarter after the shock and a 0.22% decrease in the GDP already in the third quarter.
- income tax has a significant impact on the GDP of Armenia with a 5% level of significance. A 1% increase in state budget from income tax leads to 0.06% decline in GDP in the first quarter after the shock;
- value added tax has a significant impact on the GDP of Armenia with a 5% significance level. A 1% increase in state VAT revenue leads to 0.11% reduction in GDP in the first quarter after the shock;
- turnover tax has a significant impact on the GDP of Armenia with a 10% level of significance. A 1% increase in state budget from turnover tax leads to 0.21% GDP decline in the third quarter and 0.1% increase in GDP in the fourth quarter after the shock.

Table 4

The Output Results for VAR (4) Model for Tax Policy

| Regressor | Coeff. | Standard error | P-value | t-statistics |
|--------------------|------------------|----------------|---------|-----------------|
| GDP (-1) | 0.327043 | 0.16574 | 0.0566 | 1.97326 |
| GDP (-2) | 0.19558 | 0.19936 | 0.3335 | 0.98109 |
| GDP (-3) | -0.002659 | 0.28608 | 0.9926 | -0.00929 |
| GDP (-4) | -0.064281 | 0.2539 | 0.8017 | -0.25317 |
| Turnover_t (-1) | -0.057548 | 0.08091 | 0.4818 | -0.71126 |
| Turnover_t (-2) | 0.169985 | 0.11848 | 0.1605 | 1.43467 |
| Turnover_t (-3) | -0.213114 | 0.10973 | 0.0604 | -1.94217 |
| Turnover_t (-4) | 0.101439 | 0.05825 | 0.0906 | 1.74152 |
| GDP_RF | 0.351128 | 0.18767 | 0.07 | 1.87098 |
| REM | 0.113897 | 0.0629 | 0.079 | 1.81081 |
| C | 0.006323 | 0.01761 | 0.7218 | 0.006323 |
| R-square | 0.799569 | | | |
| R-square adj. | 0.681669 | | | |
| F-statistic | 6.781743 | | | |
| Akaike AIC | -3.334312 | | | |
| Schwarz SC | -2.810945 | | | |
| Durbin-Watson stat | 1.680729 | | | |

Source: Calculated by the authors using the EViews 10 econometric package.

CONCLUSION

Summarizing the above analysis, it can be noted that both theory and practice indicate a rather ambiguous nature of the impact of tax policy on the rate of economic growth. A review of the theory showed that the impact of tax policy in general or hotel taxes on economic growth rates depends heavily on the structure of the economy, the degree of development of the institution, the presence of market and state regulation, and a variety of other factors. At the same time, developed and developing countries differ significantly in terms of the impact of tax policy on economic growth. In general, the conclusion of the theoretical review suggests that tax policy cannot directly influence the economic growth and development of a country, but contributes to the creation of a suitable business environment for the activities of the real sector, which in the long term allows to ensure sustainable rates of economic growth.

As far as the experience of Armenia is concerned, the key conclusion on the nature of tax policy is that both tax regulation in general and individual tax dynamics are dissuasive. In our view, this fiscal policy over the past few decades has led to a slowdown in economic growth. Moreover, Armenia's tax policy is deterrent both in times of economic growth and in periods of recession and crisis. The steady rise in tax charges and tax burden has led to a decrease in cash flow in the real sector, which in turn holds back the pace of economic growth. Thus, Armenia's tax policy can be characterized not only as deterrent, but also as pro-cyclical, where, regardless of economic cycles, the state chooses either deterrent or incentive regulation. In this context, a counter-cyclical strategy that would enable the market to deal more effectively with both internal and foreign shocks is one of our main recommendations from the perspective of Armenia's common tax policy.

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