INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/205

REPUBLIC OF ARMENIA

June 2023

FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA AND MONETARY POLICY CONSULTATION CLAUSE—PRESS RELEASE; STAFF REPORT

In the context of the First Review under the Stand-By Arrangement, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on March 21, 2023 with the officials of Armenia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 22, 2023.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR23/205

IMF Executive Board Completes the First Review Under the Stand-By Arrangement with Armenia

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the first review under the Stand-By Arrangement (SBA) with Armenia, providing the country with access to about US$24.5 million.*
- *Armenia's economic activity was very strong in 2022, with real GDP growing at 12.6 percent, driven by robust consumption and external demand. Growth is projected to be at 5.5 percent in 2023.*
- *The SBA, which the Armenian authorities are treating as precautionary, aims to ensure policy continuity, advance structural reforms, and maintain macroeconomic, financial, and fiscal stability.*

Washington, DC – June 12, 2023: The Executive Board of the International Monetary Fund (IMF) completed the first review under the Stand-By Arrangement (SBA) with Armenia. The completion of the review enables access of SDR 18.4 million (about US$24.5 million), bringing total access to SDR 36.8 million (about US$49 million). The SBA was approved by the IMF's Board on December 12, 2022 (see Press Release No. 22/429). The Armenian authorities continue to treat the arrangement as precautionary. The Executive Board's decision on the first review was taken without a meeting.[1]

Armenia's economic activity was very strong in 2022, with real GDP growing at 12.6 percent, driven by robust consumption and external demand, and fueled by large foreign exchange and migrant inflows from Russia. The growth momentum has continued in 2023Q1, led by expansion in construction, service, and trade-related sectors. The current account deficit plummeted to 0.9 percent of GDP for the year, benefiting from strong tourism income and remittances. Foreign direct investment and other investment inflows also increased, reflecting primarily capital inflows from Russia. Gross reserves increased to US$4.1 bn. The dram appreciated by over 20 percent against the US dollar in 2022.

Inflationary pressures started to ease in late 2022-early 2023. Headline inflation declined to 3.2 percent (y-o-y) in April 2023, mainly on account of base effects and rapidly easing food and transportation prices. But core inflation remains above headline at 4.3 percent (y-o-y) in April 2023. Double-digit nominal wage growth and service price growth are sources of significant underlying inflationary pressures.

The fiscal position improved significantly in 2022. The headline fiscal deficit narrowed to 2.1 percent of GDP in 2022 on account of robust revenues and spending under-execution. Central government debt dropped by 14 percentage points of GDP to 46.7 percent of GDP, due to deficit reduction, high nominal growth, and exchange rate appreciation.

[1] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

The program is broadly on track. All end-December quantitative performance criteria (QPCs) and indicative targets (IT) were met, and good progress was made toward the completion of structural benchmarks (SB). The end-March structural benchmark requiring the adoption of a decree clarifying the mandate, reporting, transparency, and viability requirements for the Armenian National Interests Fund (ANIF) was completed as a prior action for the review.

The economic outlook for 2023 is generally positive, although risks remain substantial. GDP growth is projected to decelerate but strong momentum, consumption and investment are expected to keep it at 5.5 percent in 2023. With services trade and remittances normalizing, the current account deficit is expected to widen in 2023. Inflation is expected to stabilize at the CBA's target of 4 percent within a year. The outlook is subject to elevated risks stemming from a challenging external environment, including regional tensions, tighter global financial conditions, and a slowdown in major trading partners.

Macroeconomic policies need to prevent overheating of the economy in the short term, while supporting inclusive and resilient growth in the medium term. To elaborate:

- Should growth and revenues be stronger than projected, building fiscal buffers is a priority. At the same time, revenue mobilization efforts should continue, including by broadening the tax base and tackling informality.
- Decisive and pro-active monetary policy tightening has been successful in containing inflationary pressures, but monetary policy needs to remain vigilant and data dependent. Financial sector risks related to the real estate sector require close monitoring by strengthening supervisory tools.
- To unlock Armenia's long-term growth potential, continued progress with implementation of structural reforms is needed, including by boosting trade links and diversification, enhancing access to finance, completing governance reforms, and improving climate change resilience.

Table 1. Armenia: Selected Economic and Financial Indicators, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.	Act.	Prel.	Proj.					
National income and prices:									
Real GDP (percent change)	-7.2	5.7	12.6	5.5	5.0	4.5	4.5	4.5	4.5
Final consumption expenditure, Contrib. to Growth	-10.5	4.0	6.6	4.3	2.4	2.2	1.8	1.7	1.8
Gross fixed capital formation, Contrib. to Growth	-0.2	1.1	1.7	3.1	2.8	2.9	3.0	3.0	3.2
Changes in inventories, Contrib. to Growth	0.1	0.7	-0.9	-1.0	0.0	0.0	0.0	0.0	0.0
Net exports of goods and services, Contrib. to Growth	3.4	-0.2	5.2	-0.9	-0.2	-0.6	-0.3	-0.1	-0.5
Gross domestic product (in billions of drams)	6,182	6,983	8,497	9,528	10,451	11,358	12,332	13,390	14,538
Gross domestic product (in millions of U.S. dollars)	12,642	13,861	19,503	23,873	25,121	26,251	27,295	28,896	31,021
Gross domestic product per capita (in U.S. dollars)	4,269	4,679	6,584	8,058	8,478	8,859	9,211	9,750	10,467
CPI (period average; percent change)	1.2	7.2	8.6	5.6	4.0	4.0	4.0	4.0	4.0
CPI (end of period; percent change)	3.7	7.7	8.3	4.5	4.0	4.0	4.0	4.0	4.0
GDP deflator (percent change)	1.8	6.9	8.1	6.3	4.5	4.0	3.9	3.9	3.9
Unemployment rate (in percent)	18.2	15.3	13.0	13.5	14.0	14.0	14.0	14.0	14.0
Investment and saving (in percent of GDP)									
Investment	19.7	20.7	19.4	23.2	23.2	23.4	23.6	23.7	23.8
National savings	15.9	17.0	18.5	21.7	20.2	19.8	19.7	19.8	19.4
Money and credit (end of period)									
Reserve money (percent change)	18.3	17.1	5.0	3.3	4.5	6.1	7.8	6.7	7.6
Broad money (percent change)	9.0	13.1	16.1	11.6	9.7	8.1	8.6	8.6	9.3
Private sector credit growth (percent change)	14.3	-3.9	4.5	9.0	8.0	8.0	6.8	6.0	6.0
Central government operations (in percent of GDP)									
Revenue and grants	25.2	24.1	24.3	24.5	24.8	25.0	25.4	25.8	26.2
Of which: tax revenue	22.0	22.1	21.9	22.7	23.0	23.2	23.5	23.9	24.3
Expenditure	30.6	28.7	26.4	27.4	27.5	27.5	27.7	27.8	27.9
Overall balance on a cash basis	-5.4	-4.6	-2.1	-2.9	-2.7	-2.5	-2.3	-2.0	-1.8
Public and publicly-guaranteed (PPG) debt (in percent of GDP)	67.4	63.4	49.3	49.6	50.1	51.3	51.4	50.7	49.7
Central Government's PPG debt (in percent)	63.5	60.3	46.7	47.2	47.7	49.2	49.6	49.2	48.1
Share of foreign currency debt (in percent)	77.0	72.6	64.0	62.2	60.7	57.8	56.4	54.8	50.1
External sector									
Exports of goods and services (in millions of U.S. dollars)	3,818	5,012	9,698	11,407	11,949	12,407	13,001	13,754	14,635
Imports of goods and services (in millions of U.S. dollars)	-5,082	-6,120	-10,118	-12,273	-13,102	-13,761	-14,482	-15,324	-16,398
Exports of goods and services (percent change)	-34.1	31.3	93.5	17.6	4.8	3.8	4.8	5.8	6.4
Imports of goods and services (percent change)	-33.2	20.4	65.3	21.3	6.8	5.0	5.2	5.8	7.0
Current account balance (in percent of GDP)	-3.8	-3.7	-0.9	-1.6	-3.0	-3.6	-3.9	-4.0	-4.5
FDI (net, in millions of U.S. dollars)	86	342	948	410	513	590	613	632	663
Gross international reserves (in millions of U.S. dollars)	2,616	3,230	4,103	4,248	4,268	4,274	4,292	4,355	4,300
Import cover 1/	5.1	3.8	4.0	3.9	3.7	3.5	3.4	3.2	3.0
End-of-period exchange rate (dram per U.S. dollar)	523	480	394	...	...	...	...	...	...
Average exchange rate (dram per U.S. dollar)	489	504	436	...	...	...	...	...	...

Sources: Armenian authorities; and Fund staff estimates and projections.

1/ Gross international reserves in months of next year's imports of goods and services, including the SDR holdings.

INTERNATIONAL MONETARY FUND

REPUBLIC OF ARMENIA

May 22, 2023

FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA AND MONETARY POLICY CONSULTATION CLAUSE

EXECUTIVE SUMMARY

Context. The Stand-By Arrangement (SBA) is off to a good start, and the economic outlook is generally positive. Real GDP growth reached 12.6 percent in 2022, driven by robust consumption and a surge in inflow of income, capital, business, and labor. Growth is expected to decelerate but remain robust in 2023. Headline inflation fell to 3.2 percent (year-on-year) in April, including due to base effects, lower food inflation, dram appreciation, and monetary policy tightening. Risks to the outlook are elevated, requiring the continuation of strong policies to build resilience further.

Program Performance. The program remains broadly on track. All QPCs for end-December were met. The end-December inflation marginally breached the lower-inner band of the MPCC, triggering a consultation between staff and the authorities. Two of the four end-March structural benchmarks (SB) were met (platform for the overnight repo market and revenue administration access to bank account information for legal entities). The March SB on amending the Tax Code to enable revenue administration audits of natural persons was not met and was rescheduled for December 2023 to allow time for public consultation of the amendment. The end-March SB on the adoption of a decree to clarify the mandate, reporting, transparency, and viability requirements for the Armenian National Interests Fund (ANIF) was implemented as a prior action for the first review.

Policy Priorities. Macroeconomic policies need to prevent overheating of the economy in the short term, while supporting inclusive and resilient medium-term growth. Fiscal structural reforms should continue focusing on enhancing public financial management, containing fiscal risks, and strengthening revenue mobilization. Efforts in the financial sector should address rising risks related to the real estate market and large nonresident deposits, and complete supervisory reforms. Advancing structural reforms should help improve Armenia's business environment, reduce structural unemployment, and foster export diversification.

First Review. Given the authorities' strong performance and commitment to the program's objectives, staff supports the completion of the first review under the SBA and modifications of the end-June 2023 performance criteria on the floor on net international reserves and the end-June 2023 monetary policy consultation clause. The authorities continue to treat the SBA as precautionary.

Approved By:
Thanos Arvanitis (MCD) and Martin Cihak (SPR)

Discussions were held during March 9–21, 2023, in Yerevan. The team comprised I. Petrova (head), M. Al Taj, M. Atamanchuk, M. El Said, G. Lisi (MCD), M. Raissi (Resident Representative), A. Carvalho (MCM), M. Coelho (FAD), L. O'Sullivan (SPR). M. Aleksanyan, V. Janvelyan and L. Karapetyan (IMF Office) supported the mission. M. Scholer (OED) participated in meetings with the authorities. N. Reyes (MCD) provided research assistance and M. Gaetskaya and B. Laumann (MCD) assisted with document preparation. The mission met with Prime Minister Pashinyan, Deputy Prime Ministers Grigoryan and Khachatryan, Governor of the Central Bank of Armenia Galstyan, Minister of Finance Hovhannisyan, Minister of Economy Kerobyan, Chairman of the State Revenue Committee Badasyan, and other senior government officials.

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APPENDIX

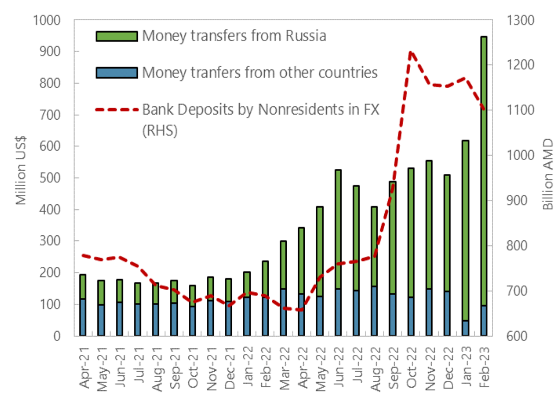
DEVELOPMENTS AND PROGRAM IMPLEMENTATION

A. Context

1. Armenia's three-year Stand-By-Arrangement approved by the IMF Executive Board in December 2022 is progressing well. The new SBA, which the Armenian authorities are treating as precautionary, aims to ensure policy continuity, advance structural reforms, and maintain macroeconomic, financial, and fiscal stability amid the ongoing war in Ukraine and border tensions with Azerbaijan, tightening global financial conditions, and growing economic fragmentation.

2. The economic outlook in 2022 was significantly affected by a record number of nonresidents and foreign exchange inflows that entered Armenia after the start of Russia's war in Ukraine. Tourist arrivals from Russia nearly doubled to 800 thousand, reaching almost half of total arrivals, and spending per tourist increased substantially in 2022. A total of 2,600 nonresident companies and 6000 nonresident individual entrepreneurs (mainly from Russia) were registered in Armenia during March 2022–February 2023. Approximately 40 percent of these companies and 65 percent of entrepreneurs are registered in the IT sector. The number of non-resident employees (15,000) and their average wages doubled in 2022. Non-resident deposits have risen by 62 percent.

Money Transfers and Nonresident Deposits



Source: Central Bank of Armenia.

3. The security situation remains volatile. Occasional border skirmishes continue to take place, and a new civilian EU mission is monitoring the situation at the border with Azerbaijan. Discussions between Armenia and Azerbaijan on normalizing relations have resumed, including on border demarcation and road and railway connections, but progress is likely to be slow.

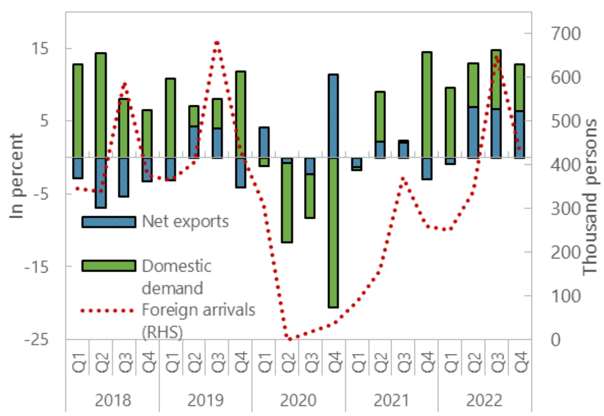
B. Recent Economic Developments and Risks

4. Growth has been strong, and inflationary pressures, although declining, remain high. Real GDP grew at 12.6 percent (y-o-y) in 2022, driven by robust domestic consumption and external demand and supported by large foreign exchange (FX) and migrant inflows from Russia (Figure 1, Table 1). The growth momentum has continued in 2023Q1, led by expansion in construction, service, and trade-related sectors. Headline inflation declined to 8.3 percent in December 2022 and further to 3.2 percent (y-o-y) in April 2023, mainly due to base effects and rapidly easing food and transportation prices. But a large nominal wage rise (21 percent y-o-y in February) and service price growth are sources of significant underlying inflationary pressures, with core inflation remaining above headline at 4.3 percent (y-o-y) in April 2023. A sustained decline in unemployment (13 percent on average in 2022, from 15.5 percent in 2021) amid recovering labor force participation shows signs of labor market tightening.

Armenia: Growth and Inflation

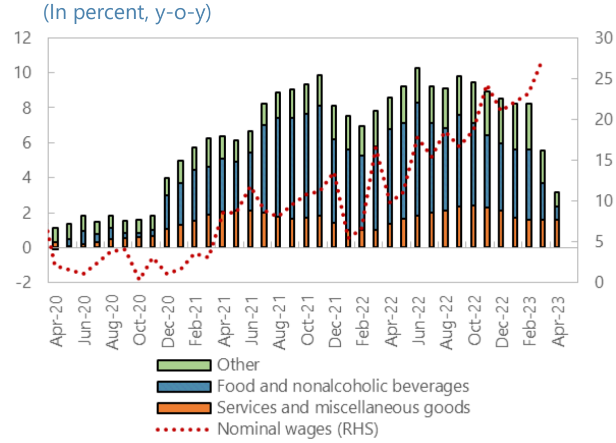
Growth is supported by an increase in foreign arrivals.

Drivers of Real GDP Growth
(In percent)



While food inflation has eased, wage pressures continue to rise.

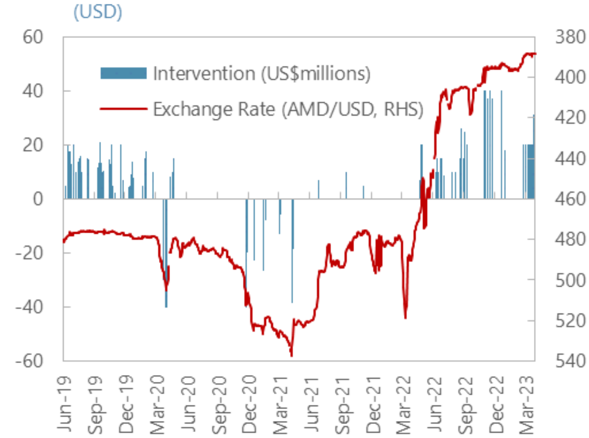
Inflation Risks
(In percent, y-o-y)



Sources: National authorities, Haver (National Statistical Service of the Republic of Armenia) and IMF staff calculations.

5. The external position strengthened significantly in 2022. Armenia's international trade-to-GDP ratio rose by 20 percentage points to about 100 percent of GDP, mainly on account of re-exports to Russia. The current account deficit plummeted to 0.9 percent of GDP for the year (Figure 2, Table 2), benefiting from booming tourism income and strong remittances. FDI and other investment inflows also increased, reflecting primarily capital inflows from Russia. CBA's reserve accumulation of $873 million during the year strengthened gross reserves to US$4.1 bn (about 154 percent of the ARA metric). The dram appreciated by over 20 percent against the US dollar in 2022.

FX Intervention and Exchange Rate
(USD)



Sources: Central Bank of Armenia and Haver.

6. The headline fiscal deficit narrowed to 2.1 percent of GDP in 2022, and public debt declined below pre-COVID levels. The corporate income tax, VAT, and stamp duties exceeded program projections in nominal terms on the back of strong growth but showed limited buoyancy relative to GDP (Figure 3, Table 3). Capital expenditure increased by 1½ percentage points of GDP relative to 2021—less than projected under the program given significant under-execution of foreign financed projects. Central government debt dropped by 14 percentage points of GDP to 46.7 percent of GDP, driven by deficit reduction, high growth, and exchange rate appreciation.

7. The financial system is generally in good health, but some risks are emerging. Banks have Pillar 1 capital well above the requirement of 12 percent, comfortable liquidity levels, and relatively low non-performing loans (NPLs) (Figure 5, Table 5). A reduction in Pillar 1 capital requirements to 11 percent is scheduled for June 1, 2023, and an increase of 0.5 percent in both the capital conservation and the systemic risk buffers is effective as of January 1, 2023. The record returns banks earned in 2022 have eased but remain significant, supported by FX gains and low provisioning needs. Double digit growth in mortgage (30 percent) and construction (10 percent) lending and rising real estate prices remain a key source of financial sector risks. The CBA introduced a loan-to-value (LTV) limit for mortgages and increased the countercyclical capital buffer (CCyB),[1] and a new law prohibits FX mortgages for residents with income in national currency.[2]

C. Outlook and Risks

8. GDP growth is projected to decelerate but remain strong in 2023 and over the medium term. With the external shock gradually tapering, growth is expected to slow. Nonetheless, strong momentum, robust domestic consumption, and a pick-up in public investment are expected to keep growth at 5.5 percent in 2023 and the output gap positive until growth converges to its potential of 4.5 percent in 2025. A possible large, but uncertain, permanent impact of the external shock could further raise the long-term growth trajectory, especially if the influx of migrants and capital result in greater investment and productivity growth. With services trade and remittances normalizing, the current account deficit is expected to widen to around 1½ percent of GDP in 2023 before it converges to its norm in the medium term.

9. Inflation is expected to reach the CBA's target within a year. Strong base effects, lower imported food inflation, dram appreciation, and lagged effects of CBA's monetary policy tightening are projected to keep the inflation rate at 4.5 percent by end-2023. Provided that inflationary expectations remain anchored, inflation is projected to converge to 4 percent in 2024Q1.

10. The outlook remains subject to elevated risks stemming from a challenging external environment (Annex I)**.** On the downside, tensions with Azerbaijan, tighter global financial conditions, a slowdown in major trading partners—including Russia—external outflows, sustained high global food and energy prices, and logistical bottlenecks for Armenia's trade through Georgia could weaken growth, put depreciation pressures on the dram, and increase inflationary pressures (Annex II). Upside risks are also significant, including from higher export receipts and continued capital and migrant inflows to Armenia from Russia. New regional cooperation and transportation links, and the implementation of the government's ambitious 2021–26 reform agenda could result in stronger medium-term growth.

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[1] The CBA introduced LTV caps of 90 percent for domestic currency mortgages and 70 percent for foreign currency mortgages in April 2022. It raised the CCyB from 0 to 1 percent as of May 2023, and to 1.5 percent as of August 2023.

[2] The law does not apply to non-residents, who can still borrow in FX.

D. Program Performance

11. All end-December quantitative performance criteria (QPCs) and indicative targets (IT) were met (MEFP Table 1). In particular, the end-December Net International Reserves (NIR) exceeded the targeted amount by a significant margin, the fiscal balance was well above the program floor, and the IT on social assistance spending was met. Headline inflation marginally breached the lower-inner band of the Monetary Policy Consultation Clause due to rapidly easing food inflation, which was clarified by the authorities during consultation with staff. Continuous performance criteria related to Article VIII of the IMF Articles of Agreement have been met.

12. Considerable progress was also made with completing structural benchmarks under the program (MEFP Table 2a). The over-the-counter commercial trading platform for the overnight repo market became operational at end-March. A law amendment to allow exchange of bank account information upon court order for legal entities refusing to provide it to SRC was completed well ahead of schedule. The end-September 2023 SB, requiring the expansion of the agricultural insurance scheme was also met. The end-March SB requiring changes in the law to enable SRC to audit natural persons is not met due to insufficient public consultation and is rescheduled for end-December 2023. The end-March SB requiring the adoption of a decree clarifying the mandate, reporting, transparency, and viability requirements for the Armenian National Interests Fund (ANIF) was completed as a prior action.

POLICY DISCUSSIONS

Discussions focused on (i) ensuring that macroeconomic policies remain well calibrated to prevent overheating of the economy in the short term, while supporting inclusive and resilient medium-term growth; (ii) advancing fiscal structural reforms to enhance public financial management, contain fiscal risks, and strengthen revenue mobilization; (iii) addressing financial sector risks and completing supervisory reforms; and (iv) promoting reforms to improve Armenia's business environment, reduce structural unemployment, and foster export diversification.

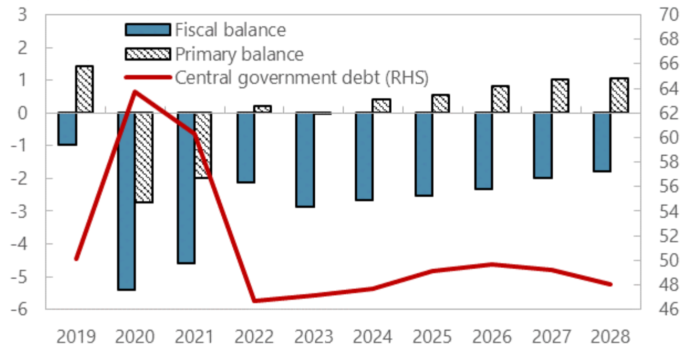
A. Building Fiscal Space

13. At 2.9 percent of GDP, the projected 2023 fiscal deficit remains in line with commitments under the program and the authorities' budget. An increase of 1½ percent of GDP in capital spending relative to 2022 will support priority development projects and national security. A current spending restraint of about ½ percent of GDP is expected despite an increase in the wage bill of civil servants of about 0.2 percent of GDP. The close-to-neutral fiscal stance remains appropriate, given the projected growth deceleration relative to 2022. However, fiscal policy should remain agile and avoid overheating of the economy. In case of stronger than projected growth and revenue overperformance, the authorities should prioritize building economic resilience through accumulation of larger fiscal buffers or bringing forward the implementation of high-quality capital projects.

14. Over the medium term, a gradual fiscal consolidation will strengthen public finances further, while fiscal reforms can provide more space for priority spending. The authorities plan to align the upcoming 2024–26 Medium-Term Expenditure Framework (MTEF) with their MEFP commitments and the 2021–26 Government Program objectives. Staff advised the authorities to:

- *Lock in accumulated fiscal buffers*. Public and central government debt have declined significantly since 2020, reaching well below pre-COVID levels. With a large, frontloaded accumulation of fiscal buffers, an annual deficit reduction of 0.2 percentage points of GDP would keep the central government debt at moderate levels below 50 percent of GDP in the medium term, guarding fiscal stability against exchange rate and growth risks and supporting spending in line with the fiscal rules.

Fiscal Deficit and Debt Path
(As percent of GDP)



Sources: National Authorities and IMF staff calculations.
Note: The primary balance and the fiscal balance do not include Nagorno-Karabakh (NK) lending.

- *Create fiscal space for priority spending.* Revenue mobilization is needed to accommodate the medium- and long-term costs of the 2021–26 Government Program, including for healthcare, wages, education, social protection, and infrastructure. The spending needs should be carefully prioritized and aligned with the expected yield of new permanent revenue measures.

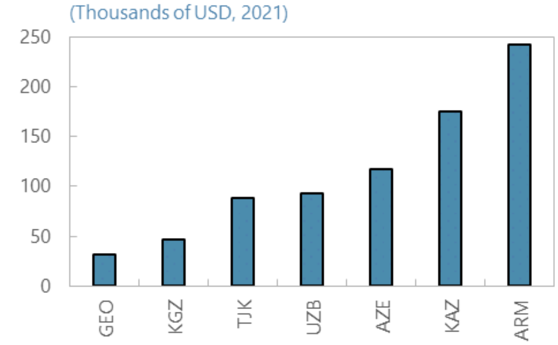
15. The new healthcare reform should be gradually phased in and its cost fully reflected in the MTEF. The authorities approved a concept note to introduce a Universal Health Coverage (UHC) system in Armenia. However, they are still defining key aspects of the new system—such as the benefit package, beneficiaries, and financing sources—in collaboration with the World Bank and the Asian Development Bank. The authorities expect to start piloting the UHC during 2024–26 and implement it fully in 2027. The potential long-term fiscal costs of this reform could exceed 2.5 percent of GDP and need to be assessed comprehensively. While clearly a critical initiative, the UHC should be gradually phased in as fiscal space is created, the new system is tested, and other accompanied reforms are implemented.

16. Full implementation of the authorities' tax policy and revenue administration commitments will be critical to support their priority expenditure plans.

- *Revenue Administration*. SRC's new powers will improve its capacity to manage revenue compliance risks. Access to bank account information upon a court order would support its efforts to verify tax filings by legal entities where sufficient information from the taxpayers is not available. Powers to conduct risk-based audits of individuals targeting tax enforcement towards higher income tax evaders would strengthen SRC's ability to successfully implement the universal PIT declarations, which will gradually come into effect from 2024. An effective communication campaign is also needed to ease the public perception that SRC's powers would lead to encroachment into individual privacy rights. To this end, the authorities have committed to complete extensive public consultation and education, and subsequently, amend the Tax Code to empower the SRC to audit natural persons (***December 2023 SB***). Complementary reforms aim at strengthening capacity, including through the transition towards cashless operations for large transactions since mid-2022 and the investment in human and technical resources to support compliance risk management.

- *Tax Policy*. With IMF technical assistance support, the authorities are making progress toward identifying inefficient and regressive tax expenditures. There is significant scope to reduce Armenia's excessively high VAT threshold, reform the turnover and micro-enterprise tax systems, tax realized capital gains by individuals for securities and real estate transactions, and reign in generous tax credits to individuals. This—and adjustments to excise taxes—could contribute to the authorities' efforts to raise at least ¾ percent of GDP in additional revenues as of 2024.

VAT Registration Threshold
(Thousands of USD, 2021)



Source: IMF Departmental Paper (2022), Revenue Mobilization for a Resilient and Inclusive Recovery in the Middle East and Central Asia.

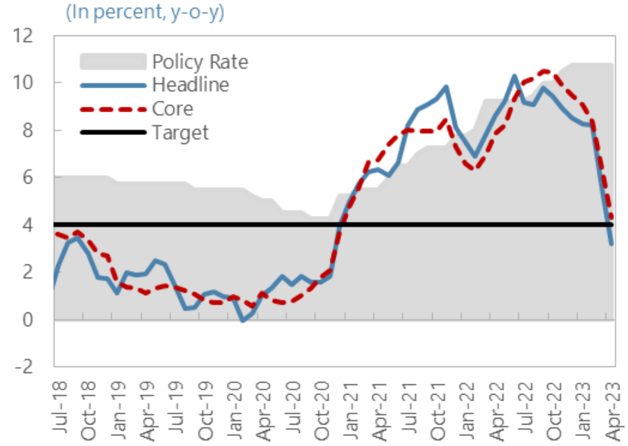
17. Continued progress in PFM reforms will help ensure efficient and transparent medium-term expenditure allocation. To curb fiscal risks and promote competition, the authorities have adopted a decree clarifying ANIF's mandate, reporting, transparency, and viability requirements **(prior action)**, and commit to halt any further capital injections in the consolidated SOE until the decree is fully implemented. The authorities have also committed to drafting a concept note for a broader state ownership policy (***March 2024 SB***), which should serve as a foundation for clarifying the role of SOEs and their contribution to national development priorities or critical services that cannot be provided by the private sector. Furthermore, completing a functional review of the MOF (***March 2024 SB***) will be a step toward improving the operational efficiency in the broader central government. To spearhead efforts at improving fiscal statistics collection and reporting in line with GFSM 2014, the authorities have also created a new dedicated working group. Timely quality central government data, including of the wage bill, are needed for better fiscal policy making and greater public sector transparency and accountability. The authorities are accelerating efforts in this area by publishing terms of reference for the implementation of an employee data module in the Government Financial Management Information System (***December 2023 SB***).

B. Addressing Inflation and Financial Sector Risks

18. Decisive and proactive monetary policy implementation has been successful in containing inflationary pressures, but monetary policy needs to remain vigilant. Inflation has declined rapidly but is projected to rise again and stabilize at the CBA's target of 4 percent in

2024Q1. In this context, risks to the inflation trajectory are significant. On the downside, a confluence of strong base effects and a large, unexpected food price decline could bring the inflation rate below 3 percent by mid-2023—as the CBA projects. On the upside, further tightening of the labor market and wage pressures could cause a quick reversal and de-anchoring of inflation expectations. Balancing the risks, the CBA has kept the policy rate on hold at 10.75 percent since mid-December. In discussions with staff, there is agreement that the monetary policy stance remains appropriate and should remain data dependent, and further monetary policy changes should be contingent on the evolution of inflation, inflation expectations, and the output gap projections. While maintaining two-way exchange rate flexibility remains a priority, it is important for the CBA to keep a strong NIR position given the highly uncertain external environment.

Armenia: Consumer Price Index, SA
(In percent, y-o-y)



Sources: National authorities and IMF staff calculations.

19. Enhancing the monetary policy framework would support its effectiveness. The newly established over-the-counter commercial trading platform for the overnight repo market is expected to foster participation of private investors in the economy, help develop money markets, and improve the monetary policy transmission. The CBA's plans to transition toward a risk-based approach to price stability in January 2024[3] need to be carefully analyzed. In this regard, the CBA has committed to prepare and adopt an enhanced communication strategy for monetary policy (**March 2024 SB**), and improve liquidity management forecasting, including in coordination with the MOF.

20. Financial sector risks related to the real estate sector warrant close monitoring. On the heels of double-digit growth in mortgage and construction lending, banks have become more exposed to real estate risks. Their mortgage portfolio has more than doubled over four years, and the share of loans to the construction sector has increased considerably. Binding borrower-based macroprudential measures, such as a lower loan-to-value cap and a stressed debt service-to-income ratio reflecting incomes under an adverse macro scenario, could help mitigate risks from the real estate sector, complementing the recent increase in the CCyB. In this regard, the CBA has committed to evaluating credit risk under unfavorable scenarios by creating a macro-financial stress test that considers a rise in balance sheet stress of property developers, significant deterioration of household income, and a sharp decline in house prices (***December 2023 SB***). The stress test results should inform further tightening of macroprudential or other measures, if necessary, to address real estate market risks in the financial sector. The Government has also committed to revising the Civil Code to regulate the use of funds in escrow accounts by property developers and to measures

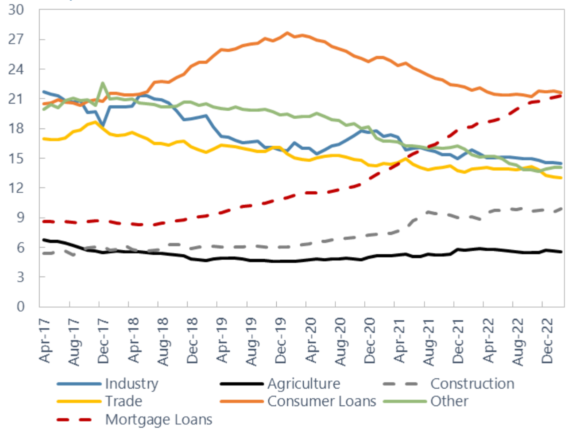
[3] Archer D., Galstyan M., Laxton D, FPAS Mark II: Avoiding Dark Corners and Eliminating the Folly in Baselines and Local Approximations, Working Paper, Central Bank of Armenia, 2022.

limiting the use of the generous mortgage interest tax credit, both of which are sources of house market overheating.

Armenia: Banks' Loan Exposure

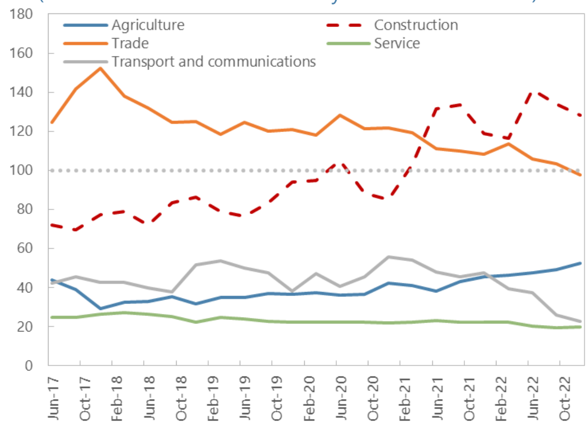
Mortgage credit is taking a larger share of banks' portfolios…

Commercial Banks' Loans by Sector
(As percent of total)



…while construction credit is growing faster than sector's contribution to the economy.

Credit by Sector
(Percent of total credit scaled by sector share in GVA)



Sources: Haver, National Authorities and IMF staff calculations.

Note: Loan amounts are exchange rate adjusted in both charts. The credit by sector as a ratio of GVA by sector is calculated as the share of credit by sector in the total credit divided by the share of GVA by sector in the total GVA.

21. The large inflow of non-resident deposits poses new risks which should be carefully monitored. Non-resident deposits—mainly denominated in FX—increased by 62 percent in 2022, raising record-high profits in the banking system. A risk of a capital flow reversal is mitigated by banks' high-level of liquid FX assets, as the recent deposit inflows have been invested in foreign bank accounts and short-term foreign bonds. Banks' high profits also provide some assurance that they can cope with a potential increase in non-performing loans in the short term, should risks in the mortgage market materialize or the capital inflows trigger fast broad-based lending growth. Recent exceptional profits from commissions and FX arbitrage are likely to be short-lived, and the CBA is closely monitoring banks' exposures. The CBA is improving its AML/CFT effectiveness by conducting an AML/CFT risk-assessment and supervisory review and evaluation of banks (SREP), in order to conduct risk-based supervision activities, and is also developing a methodology to assess operational risk from sanctions.

22. Efforts to strengthen the supervisory and resolution frameworks are ongoing. Developing the roadmap for the introduction of Pillar 2 capital buffers is on track. However, due to limited resources, the supervisory assessment of the banks' internal capital adequacy assessment process (ICAAP)—key to implementation of the Pillar 2 capital add-ons—has been delayed. The authorities recognize the need to update the ICAAP guidelines, including outlining minimum stress test parameters for banks, and have established specialized teams to address specific banking risks, but significant capacity investment is required to improve the overall risk assessment. The CBA has advanced the development of a draft bank resolution law and has established a new resolution division within the Bank Supervision Department. Further regulatory initiatives on resolution, including updating the regulation of banks' recovery plans, will be necessary for the full implementation of the resolution law once it is adopted.

C. Promoting Economic Resilience and Inclusiveness

23. Implementation of structural reforms has advanced. In view of the significant, medium- and long-term risks to the economic outlook, measures to reduce structural unemployment, improve access to credit, diversify exports, and support investments have become more critical to support inclusive, resilient, and export-oriented growth.

- *Labor market*. The authorities are finalizing an employment strategy that aims to boost labor force participation among women, young, and rural population. Planned initiatives include (i) strengthening vocational training; (ii) introducing incentives to encourage female employment; and (iii) enhancing the availability of childcare services. Increasing the size of the labor force is critical in light of Armenia's rapidly ageing population. However, limited availability of high frequency labor market data (e.g., on job vacancies and participation rates) hinders the authorities' capacity to target and monitor planned reforms and should be addressed with priority.

- *Access to finance*. Work is progressing on a concept note for the review of the bankruptcy legislation that will strengthen creditors' rights, expedite the recovery of collateral, and improve the overall efficiency of the insolvency process. Timely implementation of the reform will provide greater assurance to new foreign investors and create better prospects for sustaining recent FDI inflows. Limited corporate transparency and unreliable financial reporting creates substantial information asymmetries in credit markets and raises collateral requirements for corporate lending.[4] To address these concerns the authorities will approve a revised corporate governance code in line with international best practices (***December 2023 SB***).

- *Trade diversification*. Armenia's export structure is characterized by increasingly high concentration of products (particularly metals) and destination markets (especially Russia).[5] To help diversify the trade base, the authorities have committed to conducting an export strategy that identifies measures to remove export bottlenecks and improve the capacity to export high value-added products (**March 2024 SB**). Other ongoing reforms, including the rollout of a unified system for electronic submission of custom documents, are expected to reduce non-tariff barriers and support exports.

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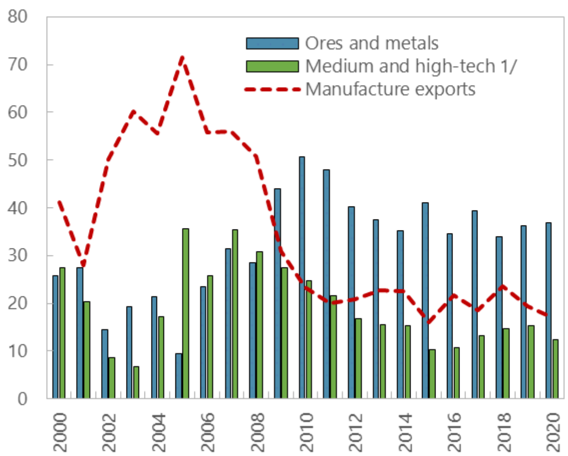
[4] See "Republic of Armenia: Financial System Stability Assessment," IMF Country Report No. 18/361 (2018) International Monetary Fund, Washington, DC.

[5] See Akepanidtaworn, K., L. Karapetyan, N. Reyes, and Y. Ustyugova, "Raising Armenia's Export Potential," IMF Working Paper 22/214 (2022), International Monetary Fund, Washington, DC.

Armenia: Export Diversification

Exports are dominated by primary commodities… | *…and increasingly concentrated destination markets.*

Export Composition
(Percent of total exports of goods)



Export Destination
(Index, unless otherwise stated)

Sources: World Bank World Development Indicators, National authorities and IMF staff calculations.
1/ High-tech exports include manufacture products with high R&D intensity.
2/ Calculated for Armenia's top twenty export markets (based on average share of exports in the period 2015–22).

- *Agricultural sector*. To enhance agriculture productivity and improve climate change resilience, the authorities have extended the existing crop insurance scheme ahead of the September schedule, allowing entrepreneurs from all regions to cover up to ten types of crops (up from four) against additional types of risks. Further reforms to (i) develop land sales and rental markets; (ii) improve agricultural sector statistics; and (iii) enhance land registration systems would contribute to support agricultural investments and productivity.

- *Governance reforms*. The authorities have (i) completed drafting an anti-corruption strategy; (ii) established an economic crime division in the prosecutor's office, which also coordinates with the CBA regarding digital assets; and (iii) expanded the requirement to file beneficial ownership information to all legal entities, requiring information on income and expenses and covering all government positions sensitive to corruption. Further efforts are needed to strengthen the independence of the judiciary in line with the recently adopted 2022–26 Judicial Reform Strategy, including by strengthening administrative and management structures in the Supreme Judicial Council (SJC) and enhancing the selection process of its members.[6] In cooperation with development partners, the authorities are also working to upgrade the e-procurement system.

PROGRAM MODALITIES

24. Staff proposes to update program targets. The end-June 2023 QPC on net international reserves is proposed to be revised upward to temporarily lock-in reserve buffers accumulated so far,

[6] For further details, see 2022-2026 Strategy for Judicial and Legal Reforms of the Republic of Armenia, and WB, 2023, Supporting Judicial Reforms in Armenia: A Forward Look.

prefinancing end-2023 government FX needs. Likewise, the projection of net international reserves for end-December 2023 presented at the time of program approval has also been increased and is now proposed as a QPC, along with the other end-December QPCs. In view of the revised outlook and risks, staff also proposes resetting the MPCC path and bands to reflect the significant moderation in the inflation rate in 2023Q1 and new global food and commodity price assumptions (Table 8).

25. New structural conditionality is proposed. New structural benchmarks for December 2023 and March 2024 focus on improving public financial management, strengthening the monitoring of financial sector risks, enhancing monetary policy communication, and fostering financial access and trade diversification (MEFP Table 2b).

26. Armenia's capacity to repay the Fund remains adequate. There is currently no estimated financing gap through the program, given firm commitments for the next 12 months and good financing prospects for the remaining period of the arrangement. The authorities continue to treat the SBA as precautionary. Debt service to the IMF remains manageable even in the event that drawings are made, with payment obligation ratios projected to reach at most 7.3 percent of gross reserves and 2.3 percent of exports in 2024. Armenia's capacity to repay the Fund is supported by the downward trajectory of both public and external debt over the medium term.

27. An update safeguards assessment is underway. Preliminary findings indicate that the CBA maintains strong internal controls over its central banking operations, and its external and internal audit arrangements and financial reporting practices are largely aligned with international standards. While governance arrangements at the CBA have matured since the 2019 assessment, further strengthening of the oversight roles of the Board and the Audit Committee is needed. Work on legal amendments to the central bank act, as recommended in 2019, should also be completed. Furthermore, the CBA should define a clear strategy to implement its plan to exit non-core activities, assess and effectively mitigate the risks of channeling development lending, and divest in the medium-term from the commercial bank to which solvency support was extended. Finally, the CBA should develop a comprehensive approach to enterprise risk management.

28. Risks to the program are manageable. The authorities' proven ability to follow through on their reform program, strong ownership, and long track-record of sound macroeconomic management mitigate potential risks associated with low capacity and burnout in some areas.

STAFF APPRAISAL

29. While the outlook is generally positive under the baseline, the strong policy implementation should continue to buttress the economy against the high global and regional uncertainty. The program is on track and the authorities remain committed to the program objectives. Risks to the outlook however are elevated, stemming from geopolitical and regional tensions, potential slowdown in major trading partners, tighter global financial conditions, and lower trade and capital outflows, which could weigh on growth and put pressures on the dram.

In this unsettled environment, continuing efforts to build resilience and improve prospects for future growth remain a priority.

30. The 2023 fiscal stance is appropriate but should remain agile to avoid overheating the economy. Should growth and revenues be stronger than projected, building fiscal buffers would help buttress fiscal and economic resilience. At the same time, revenue mobilization efforts should continue, including by broadening the tax base and tackling informality.

31. Medium-term fiscal sustainability hinges upon mitigating potential fiscal risks and creating fiscal space for priority spending. A gradual fiscal consolidation and completion of the ongoing public financial management reforms are needed to reduce risks to the debt path associated with potential macroeconomic and contingent liability shocks. The authorities' plans to increase development spending over the medium term should be prioritized and aligned with revenue mobilization efforts. Successful completion of the healthcare reform requires a careful assessment of the benefit package and transparent fiscal resource planning within the MTEF.

32. Monetary policy needs to remain vigilant. Further policy changes should be dependent on the evolution of inflation and inflation expectations. Efforts to foster capital market development, deepen financial inclusion, improve liquidity management, and enhance the CBA's communication strategy will further strengthen the effectiveness of monetary policy.

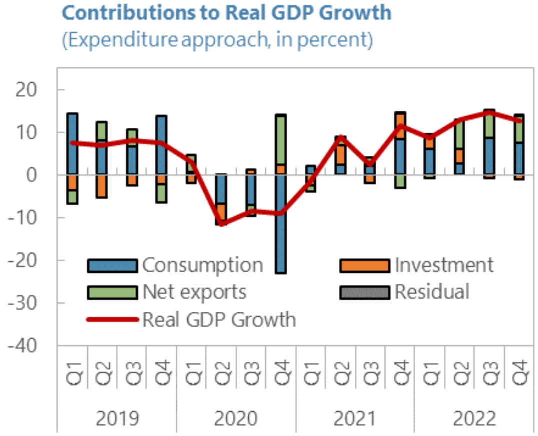
33. Financial sector risks require close monitoring. The CBA's and the government's efforts to stem real estate risks should focus on borrowers' creditworthiness and capacity to pay and developers' financial sustainability. Further measures to address these risks should be informed by the upcoming stress test. Monitoring banks' exposures associated with the fast increase in non-resident deposits and enhancing supervision to ensure banks are implementing AML/CFT preventive measures in relation to non-resident customers and deposits are also key to mitigating financial stability risks, including those related to international sanctions.

34. Continued progress with implementation of structural reforms is needed to unlock Armenia's long-term growth potential, including by boosting trade links and diversification, enhancing access to finance, fostering greater labor force participation and employment, completing governance reforms, reducing vulnerability to corruption, and improving climate change resilience.

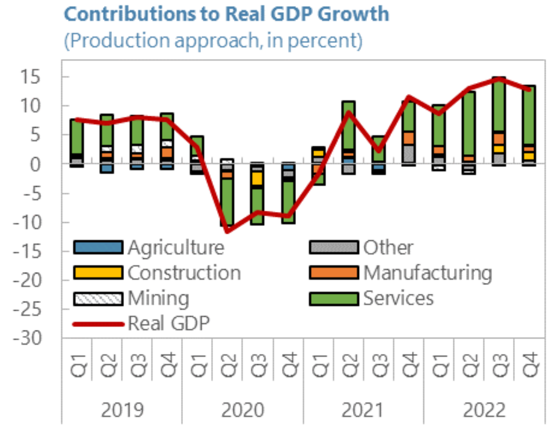
35. Staff supports the authorities' request for completion of the first review, given their strong performance and program ownership. Staff supports the proposed modifications of the end-June 2023 QPC on net international reserves and end-June 2023 MPCC. Upon completion of the review, an additional $24.5 million (SDR 18.4 million) would be made available to Armenia. The authorities intend to continue treating the arrangement as precautionary.

Figure 1. Armenia: Real Sector Developments

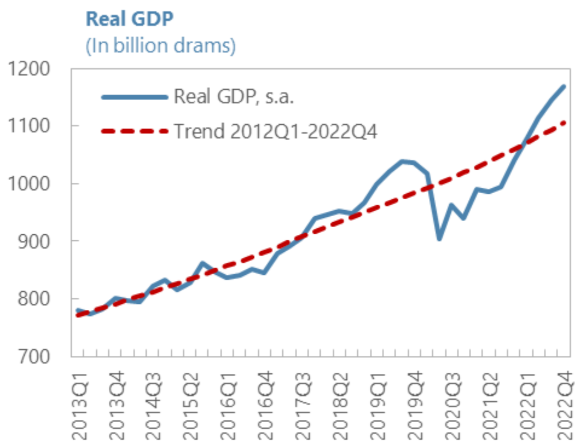
Real GDP growth has been driven by strong consumption and net exports…



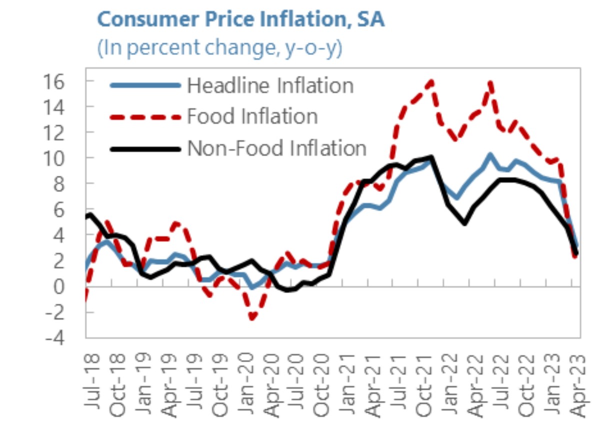
…and boosted by performance in the services sector….



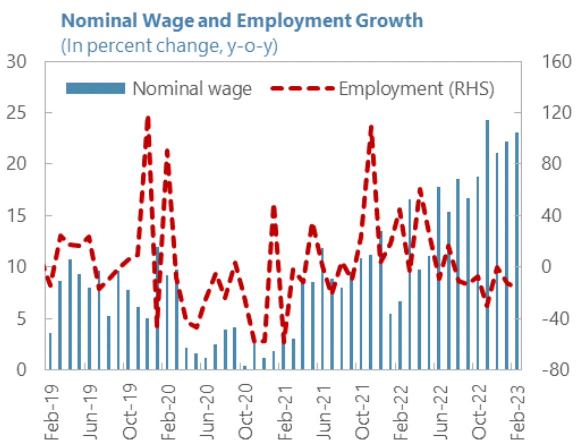
…supporting a recovery in output beyond its pre-COVID trend.



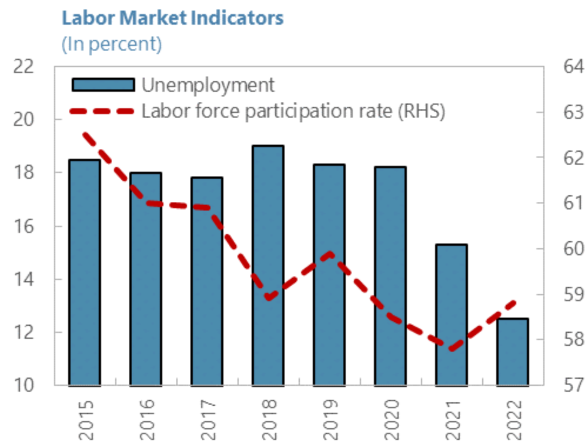
Base effects and lower food prices have eased the inflation rate rapidly…



…but strong nominal wage growth…



…and a tight labor market pose inflation risks.

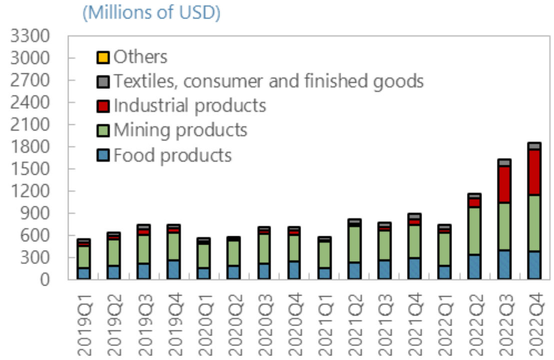


Sources: National authorities, Haver, IMF World Economic Outlook, IMF International Financial Statistics, and IMF staff calculations.

Figure 2. Armenia: External Developments

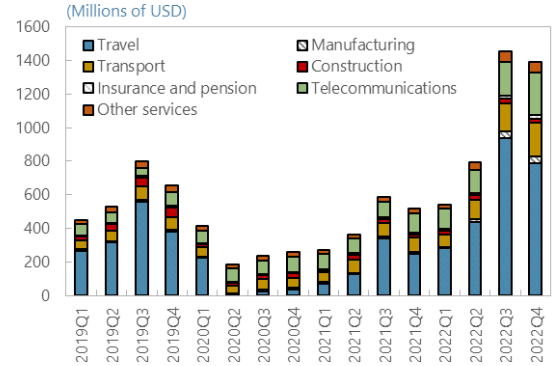
Armenia's exports are dependent on commodities…

Export of Goods by Type
(Millions of USD)



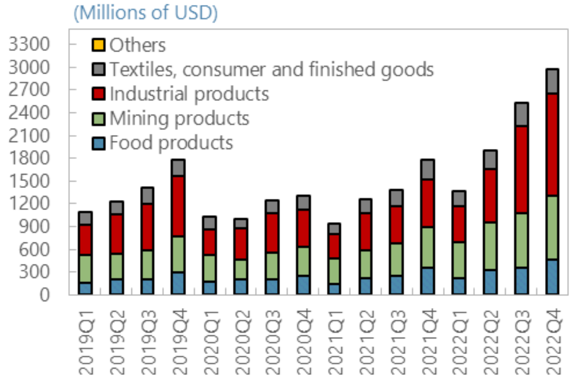
…and tourism, both of which picked up in 2022.

Export of Services by Type
(Millions of USD)



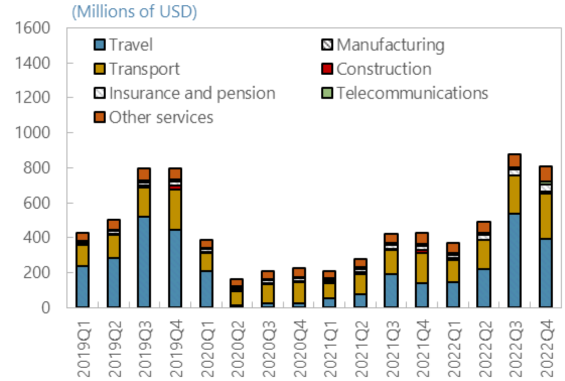
Re-exports to Russia and domestic demand boosted merchandise imports …

Import of Goods by Type
(Millions of USD)



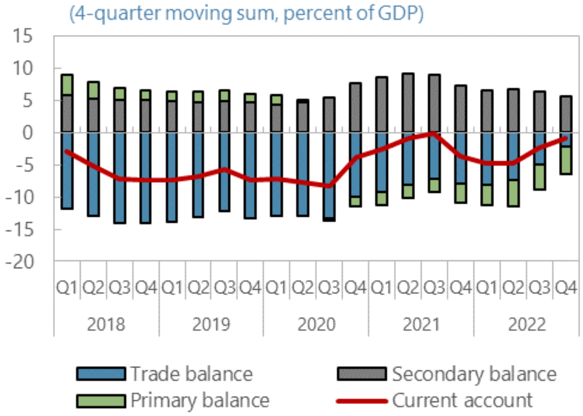
…and imports of services.

Import of Services by Type
(Millions of USD)



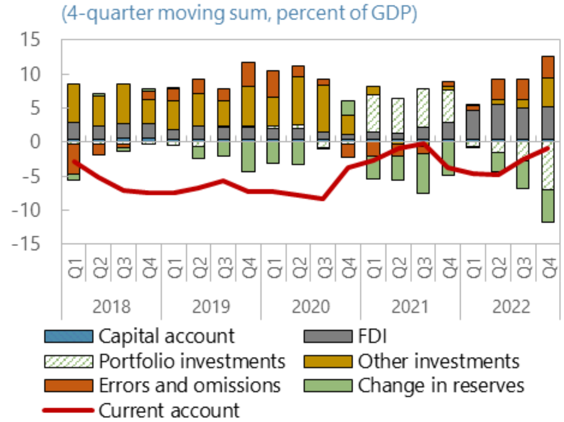
The current account deficit narrowed considerably on the strength of services' exports…

Current Account Balance
(4-quarter moving sum, percent of GDP)



…resulting in a significant increase in reserves.

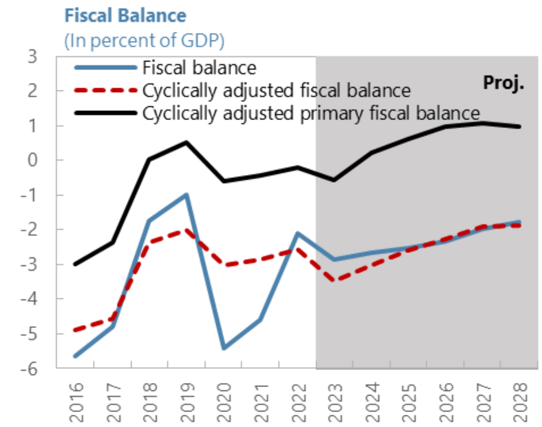
Financing of the Current Account Deficit
(4-quarter moving sum, percent of GDP)



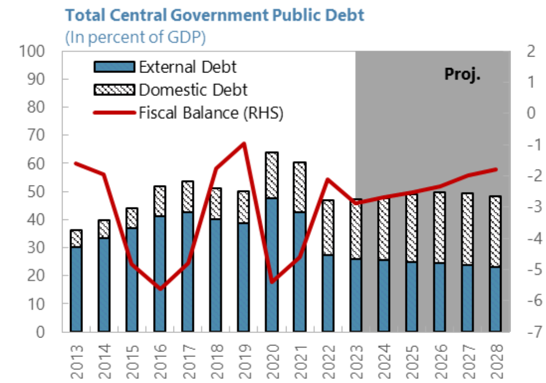
Sources: National authorities, IMF Information Notice Systems Database, and IMF staff calculations.

Figure 3. Armenia: Fiscal Developments

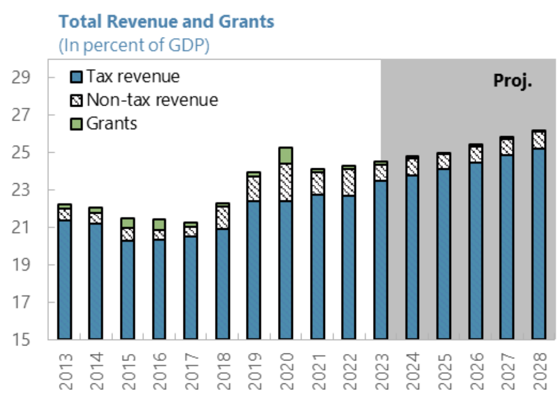
A gradual fiscal consolidation…



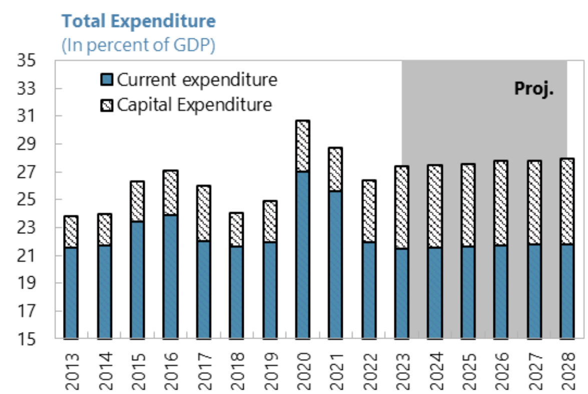
…will keep debt below 50 percent of GDP.



Tax reforms will put tax revenues on a gradual path towards the authorities' target of 25 percent of GDP.



Capital expenditures are projected to gradually grow in line with the authorities' plan to spur public investment.

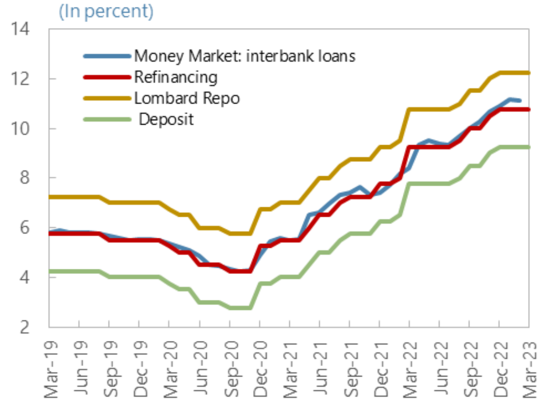


Sources: National authorities and IMF staff calculations.

Figure 4. Armenia: Monetary Developments

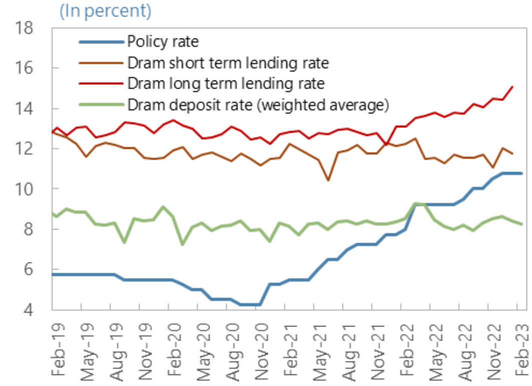
The CBA has proactively raised the policy rate, reaching 10.75 percent in December...

Interest Rate Corridor
(In percent)



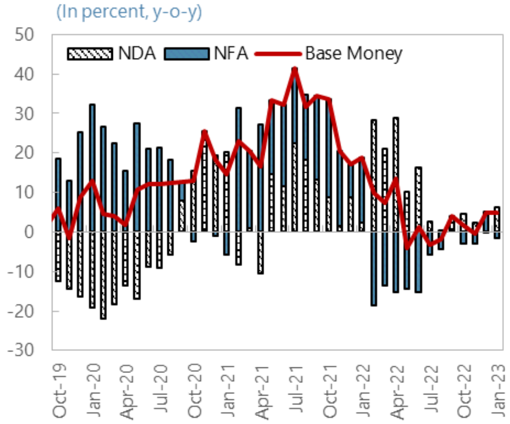
...with long-term lending rates being more responsive than deposit rates due to ample liquidity in the banking system.

Interest Rates
(In percent)



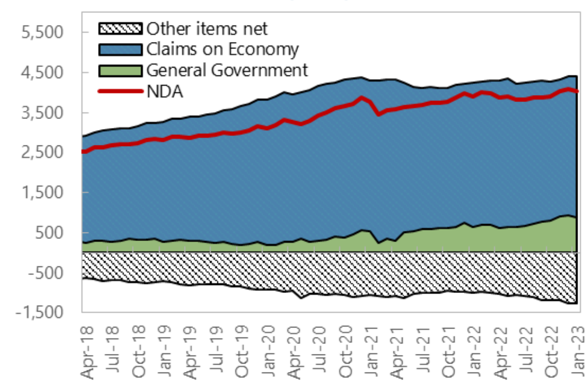
Base money growth has slowed down in 2022...

Contribution to Base Money Growth
(In percent, y-o-y)



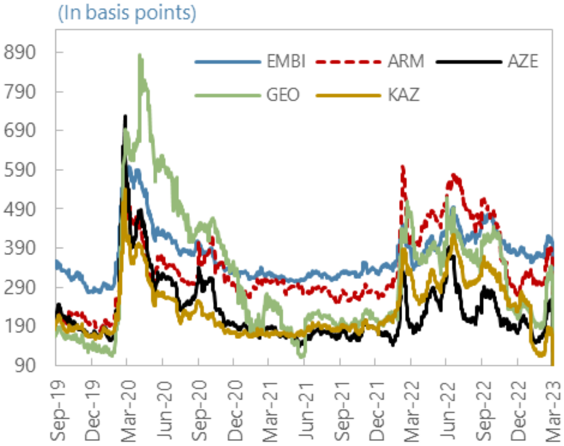
...reflecting slower growth in claims on the economy.

Composition of NDA
(In billion drams, monetary survey)



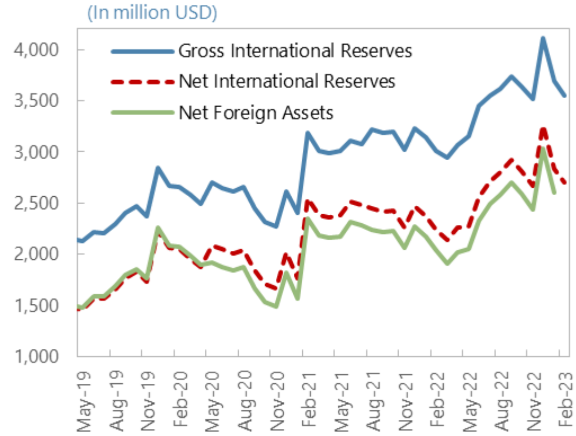
Sovereign spreads have recovered to pre-war in Ukraine levels...

Sovereign Spreads
(In basis points)



...while reserve buffers have strengthened.

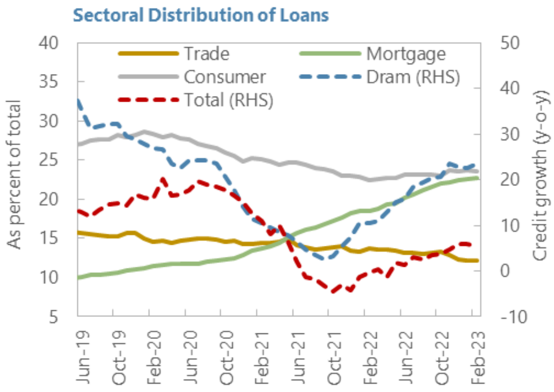
CBA Balance Sheet
(In million USD)



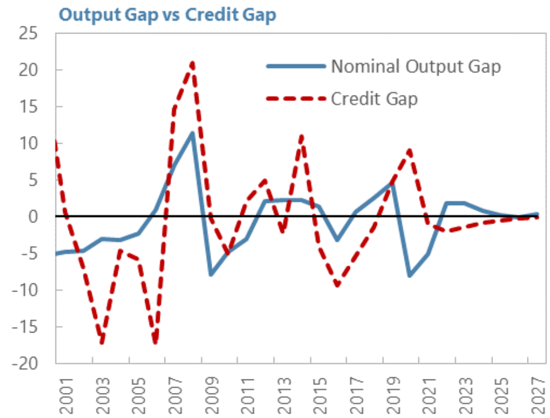
Sources: Central Bank of Armenia and IMF staff calculations.

Figure 5. Armenia: Financial Developments

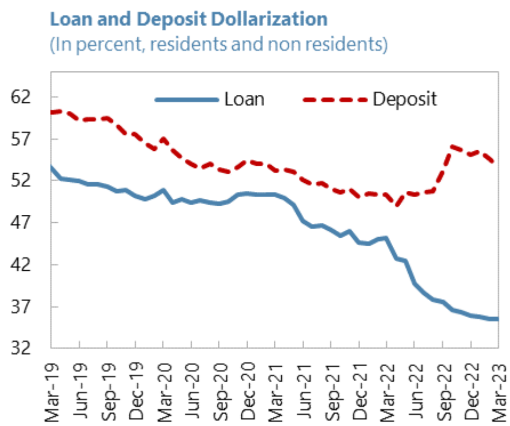
The pick-up in credit growth has been driven by an increase in dram mortgage loans…



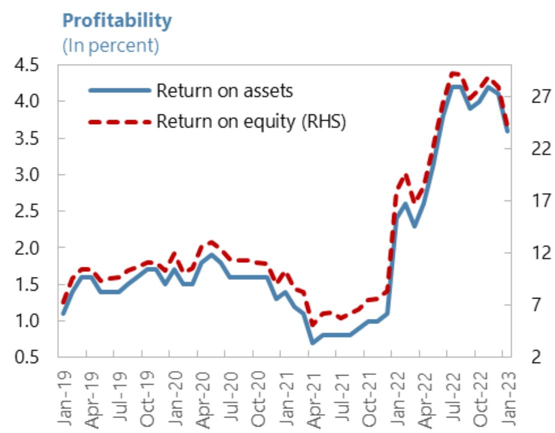
…which helps close the marginally negative credit-to-GDP gap.



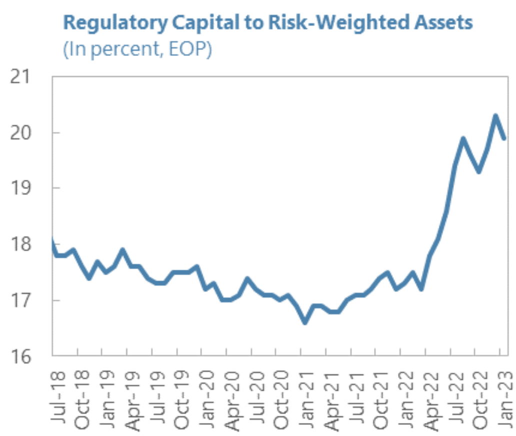
While loan dollarization declined, deposit dollarization increased due to an increase in FX non-resident deposits.



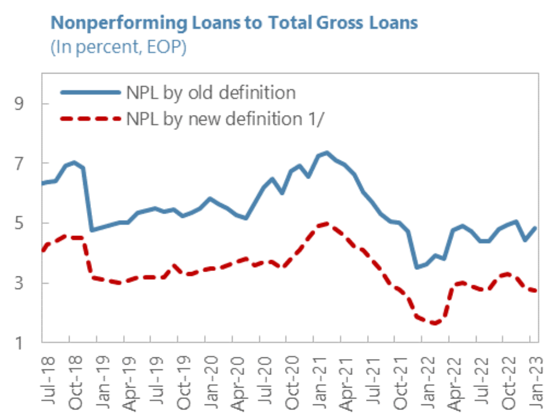
Banks' profitability improved, temporarily, due to foreign exchange gains and lower provisioning.



Banks' capital buffers are solid.



NPLs—excluding watch loans—remain low.



Sources: National authorities, Central Bank of Armenia, Bloomberg, and IMF staff calculations.

1/ In July 2021, the Central Bank of Armenia aligned the NPL definition with the BCBS regulation identified in the 2019 FSAP recommendations. The new NPL definition only considers exposures which are more than 90 days past due (doubtful and substandard loans).

Table 1. Armenia: Selected Economic and Financial Indicators, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.	Act.	Prel.			Proj.			
National income and prices:									
Real GDP (percent change)	-7.2	5.7	12.6	5.5	5.0	4.5	4.5	4.5	4.5
Final consumption expenditure, Contrib. to Growth	-10.5	4.0	6.6	4.3	2.4	2.2	1.8	1.7	1.8
Gross fixed capital formation, Contrib. to Growth	-0.2	1.1	1.7	3.1	2.8	2.9	3.0	3.0	3.2
Changes in inventories, Contrib. to Growth	0.1	0.7	-0.9	-1.0	0.0	0.0	0.0	0.0	0.0
Net exports of goods and services, Contrib. to Growth	3.4	-0.2	5.2	-0.9	-0.2	-0.6	-0.3	-0.1	-0.5
Gross domestic product (in billions of drams)	6,182	6,983	8,497	9,528	10,451	11,358	12,332	13,390	14,538
Gross domestic product (in millions of U.S. dollars)	12,642	13,861	19,503	23,873	25,121	26,251	27,295	28,896	31,021
Gross domestic product per capita (in U.S. dollars)	4,269	4,679	6,584	8,058	8,478	8,859	9,211	9,750	10,467
CPI (period average; percent change)	1.2	7.2	8.6	5.6	4.0	4.0	4.0	4.0	4.0
CPI (end of period; percent change)	3.7	7.7	8.3	4.5	4.0	4.0	4.0	4.0	4.0
GDP deflator (percent change)	1.8	6.9	8.1	6.3	4.5	4.0	3.9	3.9	3.9
Unemployment rate (in percent)	18.2	15.3	13.0	13.5	14.0	14.0	14.0	14.0	14.0
Investment and saving (in percent of GDP)									
Investment	19.7	20.7	19.4	23.2	23.2	23.4	23.6	23.7	23.8
National savings	15.9	17.0	18.5	21.7	20.2	19.8	19.7	19.8	19.4
Money and credit (end of period)									
Reserve money (percent change)	18.3	17.1	5.0	3.3	4.5	6.1	7.8	6.7	7.6
Broad money (percent change)	9.0	13.1	16.1	11.6	9.7	8.1	8.6	8.6	9.3
Private sector credit growth (percent change)	14.3	-3.9	4.5	9.0	8.0	8.0	6.8	6.0	6.0
Central government operations (in percent of GDP)									
Revenue and grants	25.2	24.1	24.3	24.5	24.8	25.0	25.4	25.8	26.2
Of which: tax revenue	22.0	22.1	21.9	22.7	23.0	23.2	23.5	23.9	24.3
Expenditure	30.6	28.7	26.4	27.4	27.5	27.5	27.7	27.8	27.9
Overall balance on a cash basis	-5.4	-4.6	-2.1	-2.9	-2.7	-2.5	-2.3	-2.0	-1.8
Public and publicly-guaranteed (PPG) debt (in percent of GDP)	67.4	63.4	49.3	49.6	50.1	51.3	51.4	50.7	49.7
Central Government's PPG debt (in percent)	63.5	60.3	46.7	47.2	47.7	49.2	49.6	49.2	48.1
Share of foreign currency debt (in percent)	77.0	72.6	64.0	62.2	60.7	57.8	56.4	54.8	50.1
External sector									
Exports of goods and services (in millions of U.S. dollars)	3,818	5,012	9,698	11,407	11,949	12,407	13,001	13,754	14,635
Imports of goods and services (in millions of U.S. dollars)	-5,082	-6,120	-10,118	-12,273	-13,102	-13,761	-14,482	-15,324	-16,398
Exports of goods and services (percent change)	-34.1	31.3	93.5	17.6	4.8	3.8	4.8	5.8	6.4
Imports of goods and services (percent change)	-33.2	20.4	65.3	21.3	6.8	5.0	5.2	5.8	7.0
Current account balance (in percent of GDP)	-3.8	-3.7	-0.9	-1.6	-3.0	-3.6	-3.9	-4.0	-4.5
FDI (net, in millions of U.S. dollars)	86	342	948	410	513	590	613	632	663
Gross international reserves (in millions of U.S. dollars)	2,616	3,230	4,103	4,248	4,268	4,274	4,292	4,355	4,300
Import cover 1/	5.1	3.8	4.0	3.9	3.7	3.5	3.4	3.2	3.0
End-of-period exchange rate (dram per U.S. dollar)	523	480	394	...	...	...	...	...	...
Average exchange rate (dram per U.S. dollar)	489	504	436	...	...	...	...	...	...

Sources: Armenian authorities; and Fund staff estimates and projections.

1/ Gross international reserves in months of next year's imports of goods and services, including the SDR holdings.

Table 2. Armenia: Balance of Payments, 2020–28
(In millions of U.S. dollars, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
		Act.				Proj.			
Current account	-478	-515	-167	-381	-748	-947	-1,068	-1,146	-1,384
Trade balance	-1,382	-1,505	-2,049	-2,138	-2,249	-2,303	-2,307	-2,305	-2,508
Exports	2,719	3,277	5,521	6,419	6,792	7,180	7,657	8,195	8,667
Imports	-4,101	-4,781	-7,571	-8,557	-9,041	-9,483	-9,964	-10,499	-11,175
Services (net)	118	397	1,630	1,271	1,097	949	826	735	745
Credits	1,099	1,735	4,177	4,988	5,158	5,227	5,344	5,559	5,968
Debits	-981	-1,338	-2,547	-3,716	-4,061	-4,278	-4,519	-4,825	-5,223
Income (net)	-196	-406	-849	-537	-532	-504	-472	-435	-394
Transfers (net)	983	999	1,101	1,022	936	910	884	860	774
Private	760	924	1,172	958	872	845	820	795	772
Official	223	75	-72	64	64	64	64	64	2
Capital and financial account	229	927	342	618	940	1,087	1,159	1,211	1,329
Capital transfers (net)	45	50	71	42	24	19	19	19	19
Foreign direct investment (net)	86	342	948	410	513	590	613	632	663
Portfolio investment (net)	-44	6	-1,666	-100	-100	-100	-100	-100	-100
Public sector borrowing (net)	-223	666	310	363	506	249	244	254	270
Disbursements	90	912	570	707	808	1,061	650	575	575
Amortization	-312	-246	-260	-344	-302	-812	-406	-321	-305
Other capital (net)	364	-137	679	-98	-3	330	383	407	477
Errors and omissions	-250	93	611	0	0	0	0	0	0
Overall balance	-499	505	784	237	192	139	91	65	-55
Financing	499	-505	-784	-237	-192	-139	-91	-65	55
Gross international reserves (increase: -)	234	-614	-873	-145	-20	-6	-18	-64	55
Use of Fund credit, net	264	-66	89	-92	-171	-134	-73	-2	0
Of which: IMF (SBA) budget support	334	0	72	0	0	0	0	0	0
SDR allocation	0	175	0	0	0	0	0	0	0
Financing needs	0	0	0	0	0	0	0	0	0
IMF (SBA)	0	0	0	0	0	0	0	0	0
IMF (SBA) BOP support	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account (in percent of GDP)	-3.8	-3.7	-0.9	-1.6	-3.0	-3.6	-3.9	-4.0	-4.5
Trade balance (in percent of GDP)	-10.9	-10.9	-10.5	-9.0	-9.0	-8.8	-8.5	-8.0	-8.1
Gross international reserves (end of period)	2,616	3,230	4,103	4,248	4,268	4,274	4,292	4,355	4,300
In months of next year's imports	5.1	3.8	4.0	3.9	3.7	3.5	3.4	3.2	3.0
In percent of IMF's Reserve Adequacy Metric (ARA)	122	143	154	151	146	144	141	140	134
Goods export growth, percent change	-19.1	20.5	68.5	16.3	5.8	5.7	6.6	7.0	5.8
Goods import growth, percent change	-19.3	16.6	58.3	13.0	5.7	4.9	5.1	5.4	6.4
Nominal external debt	12,659	13,609	14,187	14,897	15,726	16,294	16,882	17,486	18,151
o.w. public external debt	6,059	6,757	7,061	7,387	7,727	7,815	7,962	8,187	8,457
Nominal external debt stock (in percent of GDP)	100.1	98.2	72.7	62.4	62.6	62.1	61.8	60.5	58.5
External public debt-to-exports ratio (in percent)	158.7	134.8	72.8	64.8	64.7	63.0	61.2	59.5	57.8
External public debt service (in percent of exports)	14.7	9.2	4.9	4.9	5.3	9.1	4.8	3.3	2.8

Sources: Armenian authorities; and Fund staff estimates and projections.

Table 3a. Armenia: Central Government Operations, 2020–28
(In billions of Armenian drams)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.		Prel.	Proj.					
Total revenue and grants	1,560.7	1,683.8	2,063.1	2,336.1	2,590.5	2,839.6	3,134.1	3,455.6	3,803.5
Total revenue	1,507.5	1,671.5	2,048.1	2,318.9	2,579.4	2,830.5	3,125.0	3,446.5	3,794.4
Tax revenues 1/	1,360.5	1,543.9	1,861.5	2,162.9	2,401.8	2,637.4	2,903.0	3,205.5	3,532.7
VAT	471.6	556.0	679.6	790.8	867.4	942.7	1,035.9	1,138.1	1,250.3
Profits, simplified and presumptive	148.8	158.6	222.8	285.8	313.5	352.1	382.3	428.5	479.8
Personal income tax	411.5	426.3	474.8	524.0	579.0	629.2	683.2	741.8	799.6
Customs duties	68.3	84.8	56.7	76.2	104.5	136.3	160.3	187.5	218.1
Other	260.3	318.2	427.6	485.9	537.3	577.0	641.3	709.7	785.1
Social contributions	24.7	43.0	64.5	75.0	83.6	102.2	111.0	120.5	130.8
Other revenue	122.2	84.6	122.2	81.1	94.1	90.9	111.0	120.5	130.8
Grants	53.2	12.4	15.0	17.2	11.1	9.1	9.1	9.1	9.1
Total expenditure	1,894.6	2,004.3	2,242.6	2,610.0	2,869.8	3,127.7	3,413.9	3,719.7	4,061.9
Expenses	1,668.5	1,788.0	1,862.2	2,043.3	2,252.7	2,456.2	2,671.7	2,912.9	3,170.6
Wages	380.8	394.8	419.6	452.6	496.4	545.2	591.9	642.7	697.8
Payments to individual pension accts.	59.9	58.7	54.3	49.5	47.0	45.4	37.0	40.2	43.6
Subsidies	1.7	12.4	19.8	19.1	21.9	22.7	18.5	26.8	29.1
Interest	164.6	180.8	198.3	272.5	324.4	353.3	390.2	402.3	415.6
Social allowances and pensions	499.9	564.3	559.3	608.3	652.1	731.6	820.1	910.5	1,003.1
Pensions/social security benefits	297.1	317.9	356.6	371.9	424.0	472.0	524.1	589.1	654.2
Social assistance benefits	202.9	246.4	202.7	236.5	228.1	259.6	296.0	321.4	348.9
Goods and services	114.1	131.6	136.0	162.0	188.1	221.5	259.0	287.9	327.1
Grants	185.5	202.9	237.6	243.0	261.3	272.6	277.5	301.3	327.1
Other expenditure 2/	261.9	242.5	237.4	236.3	261.4	263.9	277.5	301.3	327.1
Transactions in nonfinancial assets	226.2	216.3	380.4	566.7	617.1	671.5	742.3	806.8	891.4
Acquisition of nonfinancial assets	227.7	218.4	389.3	576.7	627.1	681.5	752.3	816.8	901.4
Disposals of nonfinancial assets	1.5	2.1	8.9	10.0	10.0	10.0	10.0	10.0	10.0
Overall balance (above-the-line)	-334.0	-320.5	-179.5	-273.9	-279.3	-288.1	-279.8	-264.0	-258.4
Statistical discrepancy	18.7	0.0	16.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (below-the-line)	-315.3	-320.5	-163.5	-273.9	-279.3	-288.1	-279.8	-264.0	-258.4
Financing	315.3	320.5	163.5	273.9	279.3	288.1	279.8	264.0	258.4
Domestic financing	342.3	101.2	272.1	294.4	330.7	437.1	349.6	300.9	276.8
Banking system	306.7	183.5	85.2	186.4	192.8	265.0	181.5	180.6	166.1
CBA	59.2	-133.6	21.3	11.6	0.0	0.0	0.0	0.0	0.0
Commercial Banks	247.5	317.2	64.0	174.8	192.8	265.0	181.5	180.6	166.1
Nonbanks	35.7	-82.3	186.9	108.0	137.9	172.1	168.1	120.4	110.7
T-Bills/other	55.2	-61.0	169.4	116.5	128.5	176.7	121.0	120.4	110.7
Promissory note/other	0.0	-12.7	-11.9	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-19.6	-8.6	29.4	-8.5	9.4	-4.6	47.1	0.0	0.0
External financing	-27.0	219.3	-108.6	-20.5	-51.4	-149.0	-69.8	-36.9	-18.4
Gross disbursement	207.2	466.5	166.6	248.4	260.0	399.7	276.5	266.4	269.5
of which : IMF budget support	162.5	0.0	31.4	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-152.4	-115.6	-99.6	-124.5	-167.9	-405.3	-202.8	-159.8	-144.4
Net lending	-81.8	-131.7	-175.6	-144.5	-143.5	-143.5	-143.5	-143.5	-143.5
Other financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Nominal GDP (in billion of drams)	6,181.9	6,983.0	8,496.8	9,528.2	10,451.0	11,358.2	12,332.2	13,389.7	14,538.0
Program balance 3/	-398.0	-432.5	-320.7	-434.6	-413.4	-436.1	-376.2	-407.5	-401.9
Primary balance 4/	-270.8	-279.9	-127.4	-154.4	-89.0	-82.8	14.1	-5.2	13.8

Sources: Ministry of Finance, Central Bank of Armenia, and Fund staff estimates and projections.

1/ From 2018, the temporary tax credits used to cover tax obligations are not included in total tax revenues and are also not netted out from individual tax categories.

2/ Includes acquisition of military equipment.

3/ The program balance is measured as below-the-line balance minus net lending.

4/ Sum of overall balance (above the line), interest expense, and domestic and external net lending.

Table 3b. Armenia: Central Government Operations, 2020–28

(In percent of GDP, unless otherwise specified)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.		Prel.			Proj.			
Total revenue and grants	25.2	24.1	24.3	24.5	24.8	25.0	25.4	25.8	26.2
Total revenue	24.4	23.9	24.1	24.3	24.7	24.9	25.3	25.7	26.1
Tax revenues 1/	22.0	22.1	21.9	22.7	23.0	23.2	23.5	23.9	24.3
VAT	7.6	8.0	8.0	8.3	8.3	8.3	8.4	8.5	8.6
Profits, simplified and presumptive	2.4	2.3	2.6	3.0	3.0	3.1	3.1	3.2	3.3
Personal income tax	6.7	6.1	5.6	5.5	5.5	5.5	5.5	5.5	5.5
Customs duties	1.1	1.2	0.7	0.8	1.0	1.2	1.3	1.4	1.5
Other	4.2	4.6	5.0	5.1	5.1	5.1	5.2	5.3	5.4
Social contributions	0.4	0.6	0.8	0.8	0.8	0.9	0.9	0.9	0.9
Other revenue	2.0	1.2	1.4	0.9	0.9	0.8	0.9	0.9	0.9
Grants	0.9	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Total expenditure	30.6	28.7	26.4	27.4	27.5	27.5	27.7	27.8	27.9
Expense	27.0	25.6	21.9	21.4	21.6	21.6	21.7	21.8	21.8
Wages	6.2	5.7	4.9	4.8	4.8	4.8	4.8	4.8	4.8
Payments to individual pension accts.	1.0	0.8	0.6	0.5	0.5	0.4	0.3	0.3	0.3
Subsidies	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Interest	2.7	2.6	2.3	2.9	3.1	3.1	3.2	3.0	2.9
Social allowances and pensions	8.1	8.1	6.6	6.4	6.2	6.4	6.7	6.8	6.9
Pensions/social security benefits	4.8	4.6	4.2	3.9	4.1	4.2	4.3	4.4	4.5
Social assistance benefits	3.3	3.5	2.4	2.5	2.2	2.3	2.4	2.4	2.4
Goods and services	1.8	1.9	1.6	1.7	1.8	2.0	2.1	2.2	2.3
Grants	3.0	2.9	2.8	2.6	2.5	2.4	2.3	2.3	2.3
Other expenditure 2/	4.2	3.5	2.8	2.5	2.5	2.3	2.3	2.3	2.3
Transactions in nonfinancial assets	3.7	3.1	4.5	5.9	5.9	5.9	6.0	6.0	6.1
Acquisition of nonfinancial assets	3.7	3.1	4.6	6.1	6.0	6.0	6.1	6.1	6.2
Disposals of nonfinancial assets	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overall balance (above-the-line)	-5.4	-4.6	-2.1	-2.9	-2.7	-2.5	-2.3	-2.0	-1.8
Statistical discrepancy	0.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (below-the-line)	-5.1	-4.6	-1.9	-2.9	-2.7	-2.5	-2.3	-2.0	-1.8
Financing	5.1	4.6	1.9	2.9	2.7	2.5	2.3	2.0	1.8
Domestic financing	5.5	1.4	3.2	3.1	3.2	3.8	2.8	2.2	1.9
Banking system	5.0	2.6	1.0	2.0	1.8	2.3	1.5	1.3	1.1
CBA	1.0	-1.9	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Commercial Banks	4.0	4.5	0.8	1.8	1.8	2.3	1.5	1.3	1.1
Nonbanks	0.6	-1.2	2.2	1.1	1.3	1.5	1.4	0.9	0.8
T-Bills/other	0.9	-0.9	2.0	1.2	1.2	1.6	1.0	0.9	0.8
Promissory note/other	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-0.3	-0.1	0.3	-0.1	0.1	0.0	0.4	0.0	0.0
External financing	-0.4	3.1	-1.3	-0.2	-0.5	-1.3	-0.6	-0.3	-0.1
Gross disbursement	3.4	6.7	2.0	2.6	2.5	3.5	2.2	2.0	1.9
Amortization due	-2.5	-1.7	-1.2	-1.3	-1.6	-3.6	-1.6	-1.2	-1.0
Net lending	-1.3	-1.9	-2.1	-1.5	-1.4	-1.3	-1.2	-1.1	-1.0
Other financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Nominal GDP (in billion of drams)	6,182	6,983	8,497	9,528	10,451	11,358	12,332	13,390	14,538
Program balance 3/	-6.4	-6.2	-3.8	-4.6	-4.0	-3.8	-3.1	-3.0	-2.8
Primary balance 4/	-4.4	-4.0	-1.5	-1.6	-0.9	-0.7	0.1	0.0	0.1

Sources: Ministry of Finance, Central Bank of Armenia, and Fund staff estimates and projections.

1/ From 2018, the temporary tax credits used to cover tax obligations are not included in total tax revenues and are also not netted out from individual tax categories.

2/ Includes acquisition of military equipment.

3/ The program balance is measured as below-the-line balance minus net lending.

4/ Sum of overall balance (above the line), interest expense, and domestic and external net lending.

Table 4. Armenia: Monetary Accounts, 2021–24
(In billions of drams, unless otherwise specified)

	2021	2022	2023				2024			
	Act.	Act.	Mar.	Jun.	Sep.	Dec.	Mar	Jun	Sep	Dec
			Prel.		Proj.			Proj.		
Central Bank of Armenia										
Net foreign assets	1186.6	1287.5	1112.6	1193.3	1207.0	1254.8	1219.8	1247.3	1277.3	1307.3
Net international reserves 1/	694.2	685.7	684.1	707.3	663.5	651.4	636.4	633.9	633.9	633.9
Other	492.3	601.8	428.5	486.0	543.4	603.4	583.4	613.4	643.4	673.4
Net domestic assets	644.2	634.5	632.7	622.4	681.0	730.1	731.7	733.3	744.9	766.6
Claims on general government (net)	-393.8	-372.6	-486.6	-449.1	-411.7	-374.3	-374.3	-374.3	-374.3	-374.3
Of which : central government (net)	-323.6	-308.2	-408.9	-371.5	-334.0	-296.6	-296.6	-296.6	-296.6	-296.6
central government deposits	403.5	381.5	495.5	380.4	343.0	305.6	305.6	305.6	305.6	305.6
Claims on banks	696.4	528.3	611.9	612.7	633.9	645.5	647.2	648.8	660.4	682.0
Other items (net)	341.6	478.9	507.3	458.8	458.8	458.8	458.8	458.8	458.8	458.8
Reserve money	1,830.7	1,922.1	1,745.3	1,815.7	1,888.0	1,984.9	1,951.5	1,980.7	2,022.3	2,073.9
Currency issue	747.2	803.1	745.4	758.9	762.6	796.5	800.3	796.8	801.4	833.0
Banks' reserves	1,043.9	1,088.5	967.9	1,024.8	1,098.3	1,171.4	1,144.2	1,186.8	1,223.9	1,243.9
In drams	408.8	360.7	407.4	404.3	417.8	430.8	423.6	436.3	443.4	433.4
In foreign currency	635.1	727.8	560.5	620.5	680.5	740.5	720.5	750.5	780.5	810.5
Other accounts	39.7	30.5	32.0	32.0	27.0	17.0	7.0	-3.0	-3.0	-3.0
Banking system										
Net foreign assets	-178.0	333.5	321.6	332.3	275.9	243.8	208.7	186.3	166.3	146.3
Net domestic assets	3,980.6	4,081.5	4,176.2	4,247.0	4,443.1	4,684.8	4,863.5	4,863.8	5,035.8	5,261.1
Claims on government (net)	744.0	937.4	890.7	960.7	1,042.3	1,120.0	1,168.2	1,216.4	1,264.6	1,312.8
Of which : claims on central government (net)	814.2	1,001.8	968.4	1,038.4	1,119.9	1,197.6	1,245.8	1,294.0	1,342.2	1,390.4
Claims on rest of the economy	4,208.7	4,397.6	4,559.2	4,514.8	4,629.4	4,793.4	4,923.9	4,876.0	4,999.8	5,176.8
Other items (net)	-972.1	-1,253.5	-1,273.7	-1,228.5	-1,228.5	-1,228.5	-1,228.5	-1,228.5	-1,228.5	-1,228.5
Broad money	3,802.6	4,415.0	4,497.8	4,579.3	4,719.0	4,928.6	5,072.3	5,050.1	5,202.1	5,407.4
Currency in circulation	636.1	675.7	630.9	642.3	641.9	670.4	670.0	667.1	667.1	693.5
Deposits	3,166.5	3,739.3	3,866.9	3,936.9	4,077.1	4,258.1	4,402.3	4,383.1	4,535.0	4,713.9
Domestic currency	1,826.7	2,118.0	2,188.9	2,103.7	2,144.6	2,226.2	2,271.0	2,152.4	2,205.0	2,284.6
Foreign currency	1,339.8	1,621.2	1,678.0	1,833.2	1,932.6	2,031.9	2,131.3	2,230.6	2,330.0	2,429.3
Memorandum items:										
Exchange rate (drams per U.S. dollar, end of period)	480.1	393.6	...	...	...	...	...	...	...	...
12-month change in reserve money (in percent)	17.1	5.0	8.6	7.3	6.2	3.3	11.8	9.1	7.1	4.5
12-month change in broad money (in percent)	13.1	16.1	18.2	20.1	16.5	11.6	12.8	10.3	10.2	9.7
12-month change in dram broad money (in percent)	12.8	13.4	16.8	10.4	8.6	3.7	4.3	2.7	3.1	2.8
12-month change in private sector credit (in percent)	-3.9	4.5	5.1	7.0	8.0	9.0	8.0	8.0	8.0	8.0
Velocity of broad money (end of period)	1.8	1.9	1.9	2.0	2.0	1.9	1.9	2.0	1.9	1.9
Money multiplier	2.1	2.3	2.6	2.5	2.5	2.5	2.6	2.5	2.6	2.6
Private sector credit (in percent of GDP)	60.3	51.8	47.8	47.4	48.6	50.3	47.1	46.7	47.8	49.5
Dollarization in bank deposits 2/	42.3	43.4	43.4	46.6	47.4	47.7	48.4	50.9	51.4	51.5
Dollarization in broad money 3/	35.2	36.7	37.3	40.0	41.0	41.2	42.0	44.2	44.8	44.9
Currency in circulation in percent of deposits	20.1	18.1	16.3	16.3	15.7	15.7	15.2	15.2	14.7	14.7
NIR (U.S. dollars, program exchange rate)	1,452.7	1,703.0	1,718.6	1,743.7	1,635.7	1,605.7	1,568.7	1,562.7	1,522.7	1,562.7
NIR (U.S. dollars, actual exchange rate)	1,445.9	1,742.3	1,742.5	1,743.7	1,635.7	1,605.7	1,568.7	1,562.7	1,562.7	1,562.7

Sources: Central Bank of Armenia; and Fund staff estimates and projections.

1/ In line with the TMU definition.

2/ Ratio of foreign currency deposits to total deposits (in percent).

3/ Ratio of foreign currency deposits to broad money (in percent).

Table 5. Armenia: Financial Soundness Indicators for the Banking Sector, 2021–23
(In percent, unless otherwise indicated)

	2021				2022				2023
	Mar	Jun	Sep	Dec	Mar	June	Sep	Dec	Feb
Capital adequacy									
Total regulatory capital to risk-weighted assets	17.0	17.0	17.2	17.2	17.2	18.6	19.6	20.3	20.1
Capital (net worth) to assets	13.3	13.0	12.8	13.0	14.8	15.2	14.9	14.9	15.5
Asset composition									
Sectoral distribution of loans (in billions of drams)									
Industry (excluding energy sector)	435.2	418.2	389.3	390.2	415.7	375.7	371.1	372.2	364.8
Energy sector	195.9	127.5	136.5	120.8	132.8	122.1	122.7	127.5	137.9
Agriculture	200.6	190.6	196.3	222.3	230.4	227.5	221.3	238.2	236.7
Construction	275.0	304.2	325.1	315.2	333.7	328.4	340.2	349.6	356.5
Transport and communication	139.8	129.6	121.8	126.9	116.7	101.4	87.3	88.6	92.8
Trade/commerce	532.8	501.3	481.0	482.4	504.9	472.1	477.5	469.7	467.5
Consumer credits	915.6	871.2	833.2	824.8	834.4	824.6	837.6	895.5	907.6
Mortgage loans	517.2	551.5	587.3	654.7	698.0	721.9	780.4	849.4	874.1
Sectoral distribution of loans to total loans (percent of total)									
Industry (excluding energy sector)	11.0	11.2	10.5	10.3	10.6	9.9	9.4	8.9	8.8
Energy sector	4.9	3.4	3.7	3.2	3.4	3.2	3.1	3.1	3.3
Agriculture	5.1	5.1	5.3	5.9	5.9	6.0	5.6	5.7	5.7
Construction	6.9	8.1	8.8	8.3	8.5	8.6	8.6	8.4	8.6
Transport and communication	3.5	3.5	3.3	3.3	3.0	2.7	2.2	2.1	2.2
Trade/commerce	13.4	13.4	13.0	12.7	12.9	12.4	12.1	11.3	11.3
Mortgage loans	13.0	14.8	15.8	17.3	17.8	18.9	19.8	20.4	21.1
Consumer credits	23.1	23.3	22.4	21.8	21.3	21.6	21.3	21.5	21.9
Foreign exchange loans to total loans	51.5	48.4	47.3	45.5	46.0	40.5	38.1	36.6	35.7
Asset quality									
Nonperforming loans (in billions of drams)	290.0	236.8	113.6	74.1	72.6	113.9	129.0	117.4	114.4
Watch (up to 90 days past due)	95.2	75.4	82.6	64.8	82.5	72.7	63.0	67.0	95.4
Substandard (91-180 days past due)	121.5	90.4	66.7	46.4	39.9	37.3	41.3	36.7	35.7
Doubtful (181-270 days past due)	73.3	71.0	46.9	27.7	32.8	76.5	87.8	80.7	78.7
Loss (>270 days past due, in billions of drams)	357.8	394.0	428.8	440.6	455.2	434.9	460.0	489.7	488.7
Nonperforming loans to gross loans	7.1	6.1	2.9	1.9	1.8	2.9	3.2	2.8	2.7
Provisions to nonperforming loans	45.2	49.4	84.1	99.7	91.2	76.5	74.5	80.3	81.9
Spread between highest and lowest rates of interbank borrowing in AMD	0.9	1.8	0.3	1.6	6.5	1.2	1.5	1.0	0.4
Spread between highest and lowest rates of interbank borrowing in FX	0.4	0.3	0.0	0.6	1.8	1.3	0.5	2.5	1.8
Earnings and profitability									
ROA (profits to period average assets)	1.12	0.84	0.9	1.1	2.3	3.7	3.9	4.1	3.3
ROE (profits to period average equity)	8.3	6.3	6.6	8.7	16.7	26.3	26.8	27.9	21.9
Interest margin to gross income	35.2	34.5	33.5	32.3	26.2	24.2	24.0	25.0	35.4
Interest income to gross income	76.7	76.5	76.3	75.5	65.0	58.2	55.9	55.4	69.5
Noninterest expenses to gross income	26.7	28.7	28.6	29.3	26.9	25.3	23.9	26.1	29.3
Liquidity									
Liquid assets to total assets	28.1	30.8	31.7	32.0	31.1	32.6	34.8	37.0	37.3
Liquid assets to total short-term liabilities	117.6	122.1	120.1	122.7	117.5	111.8	108.9	102.4	102.5
Customer deposits to total (non-interbank) loans	108.7	115.3	117.3	119.7	114.3	118.2	125.8	135.9	131.5
Foreign exchange liabilities to total liabilities	52.1	49.8	48.4	47.4	47.7	46.8	48.7	50.3	50.0
Sensitivity to market risk									
Gross open positions in foreign exchange to capital	4.2	3.6	5.5	5.9	12.4	9.3	6.8	3.3	2.4
Net open position in FX to capital	-2.1	-0.1	1.5	4.6	11.1	7.2	5.0	1.9	1.6

Source: Central Bank of Armenia.

Note: In July 2021, the CBA aligned the NPL definition with the BCBS regulation. New NPL definition only takes into account exposures that are more than 90 days past due (doubtful and substandard loans)

Table 6. Armenia: Schedule of Reviews and Available Purchases Under the Stand-By Arrangement

Date of Availability	Conditions	Amount (millions of SDRs)	Percent of Quota	Percent of Quota (cumulative)
December 12, 2022	Board approval of the arrangement	18.400	14.29	14.29
June 9, 2023	Observance of end-Dec 2022 performance criteria and continuous performance criteria, and completion of first review	18.400	14.29	28.57
December 11, 2023	Observance of end-June 2023 performance criteria and continuous performance criteria, and completion of second review	18.400	14.29	42.86
June 10, 2024	Observance of end-December 2023 performance criteria and continuous performance criteria, and completion of third review	18.400	14.29	57.14
December 11, 2024	Observance of end-June 2024 performance criteria and continuous performance criteria, and completion of fourth review	18.400	14.29	71.43
June 9, 2025	Observance of end-December 2024 performance criteria and continuous performance criteria, and completion of fifth review	18.400	14.29	85.71
November 21, 2025	Observance of end-June 2025 performance criteria and continuous performance criteria, and completion of sixth review	18.400	14.29	100.00
	Total	128.8	100.00	100.00

Sources: Fund staff estimates and projections.

Table 7. Armenia: Indicators of Capacity to Repay the Fund, 2023–30

	2023	2024	2025	2026	2027	2028	2029	2030
				Projections				
Fund obligations based on existing credit								
(in millions of SDRs)								
Principal	69.2	128.6	99.9	45.1	14.2	0.0	0.0	0.0
Charges and interest	13.1	19.7	13.1	9.6	7.7	7.4	7.4	7.4
Fund obligations based on existing and prospective credit 1/								
In millions of SDRs	83.7	152.6	117.8	69.9	59.3	52.3	41.3	21.6
In millions of US$	117.2	214.8	165.9	98.4	83.5	73.7	58.1	30.4
In percent of Gross International Reserves	4.3	7.3	5.1	3.2	2.6	1.7	1.3	0.6
In percent of exports of goods and services	1.1	2.3	1.7	0.8	0.6	0.4	0.3	0.1
In percent of external public debt service	21.0	33.5	14.6	15.4	16.5	15.8	6.2	8.1
In percent of GDP	0.6	1.1	0.8	0.5	0.4	0.2	0.2	0.1
In percent of quota	65.0	118.5	91.5	54.3	46.1	40.6	32.0	16.8
Outstanding Fund credit based on existing drawings								
In millions of SDRs	287.7	159.1	59.3	14.2	0.0	0.0	0.0	0.0
In billions of US$	0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.0
In percent of Gross International Reserves	9.5	5.2	2.0	0.5	0.0	0.0	0.0	0.0
In percent of exports of goods and services	3.5	1.9	0.7	0.2	0.0	0.0	0.0	0.0
In percent of external public debt service	72.3	34.9	7.3	3.1	0.0	0.0	0.0	0.0
In percent of GDP	1.7	0.9	0.3	0.1	0.0	0.0	0.0	0.0
In percent of quota	223.3	123.5	46.0	11.0	0.0	0.0	0.0	0.0
Outstanding Fund credit based on existing and prospective drawings 1/								
In millions of SDRs	342.9	251.1	188.1	133.8	87.4	46.0	13.8	0.0
In billions of US$	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
In percent of Gross International Reserves	17.5	12.0	8.2	6.1	3.9	1.5	0.4	0.0
In percent of exports of goods and services	4.7	3.7	2.7	1.4	0.9	0.3	0.1	0.0
In percent of external public debt service	86.1	55.1	23.3	29.5	24.2	13.9	2.1	0.0
In percent of GDP	2.6	1.8	1.3	0.9	0.5	0.2	0.1	0.0
In percent of quota	266.2	195.0	146.0	103.9	67.9	35.7	10.7	0.0
Net use of Fund credit (millions of SDRs) existing and prospective 1/	-45.1	-114.0	-79.0	-69.9	-59.3	-52.3	-41.3	-21.6
Disbursements	38.5	38.6	38.8	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	83.7	152.6	117.8	69.9	59.3	52.3	41.3	21.6
Memorandum items (adverse scenario)								
Nominal GDP (in millions of US$)	18,709	20,018	20,918	21,750	23,026	31,021	33,271	36,185
Exports of goods and services (in millions of US$)	10,232	9,548	9,938	13,001	13,754	18,529.5	19,873.5	21,613.8
Gross international reserves (in millions of US$)	2,738	2,951	3,227	3,110	3,175	4,278	4,588	4,990

Sources: IMF staff estimates and projections.

1/ Assumes access of 128.8 million SDR over 2022-2025 and semi-annual disbursements. The ratios in the corresponding lines use GDP, reserves, exports, and debt service in the adverse scenario case.

Table 8. Armenia: External Financing Requirements and Sources, 2022–25
(In millions of U.S. dollars, unless otherwise indicated)

	2022	2023	2024	2025
Gross Financing Needs	**1,342**	**968**	**1,242**	**1,890**
Current Account Deficit excluding budget support grants	167	381	748.5	947
Change in NFA	873	145	20.4	6
External debt amortization (excluding IMF)	260	344	302	812
Repayment to the Fund (amortization)	42	98	171.8	125
Financing Sources	**1342**	**968**	**1242**	**1890**
FDI	948	410	513	590
Loan disbursements (public sector)	327	707	808	1061
- Program	206	150	200	143
- Project	121	557	608	918
External Grants	49	45	24	19
- Program	31	3	0	0
- Project	18	42	24	19
Other Capital Flows	-593	-195	-103	221
Errors and Omissions	611	0	0	0
Financing Gap	0	0	0	0

Sources: Ministry of Finance, Central Bank of Armenia, and Fund staff estimates and projections

Table 9. Armenia: Prior Action and Structural Benchmarks at the Program Approval

Deadline	Status	Macro Criticality	Responsible Agency	Measure
Fiscal Policy and Fiscal Structural Reforms				
Prior Action	Met	Ensure macro-fiscal stability	MOF	Adopt 2023 budget with an overall deficit of around 3 percent of GDP.
March 2023	Prior action for the First Review	Improve public financial management and reduce fiscal risks	DPM/MOE/MOF	Adopt a government decree clarifying the mandate, reporting, transparency, and viability requirements for ANIF and its subsidiaries, based on the concept note developed for public sector units.
June 2023			DPM/MOE/MOF	Develop an action plan to strengthen the PIM institutional framework and processes, by identifying and addressing the bottlenecks to ensure an effective cycle of planning, budgeting, implementing, and monitoring of large capital projects.
September 2023			MOF	Develop a concept note on monitoring, approval, and control framework related to local governments and local government borrowing.
March 2023	Not met/rescheduled	Improve tax compliance	MOF/SRC	Amend the Tax Code to empower the SRC with authority to audit natural persons and include broader indirect audit methods.
March 2023	Met		DPM/CBA/MOF/ SRC	Amend the legislation to allow exchange of bank account information for legal entities on request to verify information provided by taxpayers between the banks and SRC, and to allow SRC access to bank account information for legal entities refusing to provide it upon a court order.
June 2023		Mobilize tax revenue	MOF/SRC	Publish a detailed assessment of tax expenditures and an action plan for their rationalization.
Monetary Policy and Financial Sector Reforms				
March 2023	Met	Capital market development	CBA	Facilitate the introduction of an over-the-counter commercial trading platform for the overnight repo market.
June 2023			CBA	Develop a formal roadmap for introduction of Pillar 2 capital buffers.

Table 9. Armenia: Prior Action and Structural Benchmarks at the Program Approval (concluded)

November 2023		Strengthen the regulatory and supervisory framework	CBA	Prepare and submit to parliament a draft law for an enhanced bank resolution framework that is in line with the Financial Stability Board's Key Attributes for Effective Resolution Regimes for Financial Institutions.
Structural Reforms				
June 2023		Infrastructure development	DPM/MOF/MTAI	Conduct a study to identify bottlenecks in the execution of foreign-funded projects.
September 2023		Improve the business environment	MOJ	Draft and submit the concept paper on the review of the legislation on bankruptcy.
September 2023	Met ahead of schedule		MOE	Expand the agricultural insurance scheme to cover more risks, regions, and crops.
June 2023		Enhance labor force participation and boost employment.	MLSA	Approve a costed employment strategy, including to bolster active labor market policies.

Annex I. Risk Assessment Matrix

Risk	Description	Likelihood	Possible Impact	Policy Advice
Conjunctural Risks				
Intensification of regional conflict(s).	Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High	Broader sanctions on Russia could adversely affect Armenia's trade—including tourism—remittances and investment inflows, increase food prices and inflation further, and put pressure on the dram. The sanctions may also pose financial stability and compliance risks, potentially exacerbating pressures on correspondent banking relations (CBR).	Maintain a tight monetary policy stance to keep inflation expectations anchored. Maintain a flexible exchange rate to act as a shock absorber. Build fiscal buffers and provide targeted support to the most vulnerable, especially to address potential food insecurity. Mobilize external official financing in case the available resources prove insufficient to provide an adequate response. Enhance supervision of the financial sector to ensure implementation of AML/CFT preventive measures that also mitigate sanctions evasion risk.
Commodity price volatility.	A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	Medium	Rising food and energy prices could build further inflationary pressures, lead to food and energy insecurity, hamper economic activity, and cause social discontent.	Maintain adequate monetary policy stance to curtail inflationary pressures. Build fiscal and external buffers, reprioritize spending and provide necessary, targeted support to the most vulnerable.
Social discontent.	Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	High	Negative spillovers from the war in Ukraine, rise in food and energy prices, shortage of food supplies, and new pandemic waves may lead to social discontent and political instability in Armenia.	Build fiscal cushions, strengthen social safety nets, undertake labor market reforms, and put in place necessary administrative and policy measures to help secure food and energy supplies.
Abrupt global slowdown or recession.	Global and idiosyncratic risk factors combine to cause a synchronized sharp growth	Medium	A slowdown in trading partners will affect economic activity and	Strengthen and diversify trade channels/markets. Enhance diplomacy.

Risk	Description	Likelihood	Possible Impact	Policy Advice
	downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.		result in an abrupt bout of risk aversion for Armenia.	Allow the exchange rate to operate as a shock absorber, intervene in the fx market to address disorderly market conditions.
	• **U.S.:** Amid tight labor markets, supply disruptions and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in dollar strengthening, a more abrupt financial and housing market correction, and "hard landing".	Medium		
	• **Europe:** Intensifying fallout from the war in Ukraine, worsening energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns and housing market corrections.	High		
	• **China:** Greater-than-expected economic disruptions from COVID resurgence, rising geopolitical tensions, and/or a sharper-than-expected slowdown in the property sector disrupt economic activity.	Medium		
	• **EMDEs:** A new bout of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops.	Medium		
Monetary policy miscalibration.	Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation	Medium	Domestic inflation may accelerate.	Stand ready to tighten monetary policy as needed along with coordinated monetary-fiscal policy mix to contain inflation.

Risk	Description	Likelihood	Possible Impact	Policy Advice
	expectations and triggering a wage-price spiral in tight labor markets.			
Systemic financial instability.	Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	Medium	Armenia's external debt is not sensitive to interest shocks, but public debt is sensitive to exchange rate shocks. Dollarization in the financial system also makes it vulnerable to exchange rate shocks.	Continue the de-dollarization efforts and strengthen banking supervision and provisions to respond in the event of higher NPLs in dollar.
Structural Risks				
Deepening geo-economic fragmentation.	Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	The war in Ukraine and regional tensions would have adverse political and economic implications, including higher uncertainty and lower trade and investment.	Strengthen and diversify trade channels/markets. Enhance diplomacy. Prepare and implement contingency plans. Strengthen social safety nets. Undertake structural reforms to build resilience of the domestic economy.
Cyberthreats	Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	Medium	Highly uncertain assessment of systemic risks and potential economic costs due to insufficient information and evolving risks.	Strengthening international and regional cooperation and developing government and business contingency and continuation plans.
Extreme climate events.	Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	Medium	Higher frequency and severity of natural disasters would cause severe economic damages and disrupt economic activities.	Undertake a comprehensive climate risk assessment of Armenia and develop national adaptation and mitigation policies to strengthen the resilience against climate change risks.

Risk	Description	Likelihood	Possible Impact	Policy Advice
		Domestic Risks		
Financial sector risks	Risks could increase due to the rapid increase in house prices and mortgage lending, and sanctions on financial institutions and other businesses.	Medium	An NPL rise could undermine financial stability and increase government contingent liabilities. Sanctions could cause reputational damage to the economy and increase transaction costs.	Enforce prudential and provisioning rules that are consistent with international standards and strengthen further the regulatory and supervisory framework and the effective implementation of AML/CFT measures to support the establishment of new CBRs. Implement macroprudential measures. Closely monitor the financial sector.
Geopolitical tensions and regional conflict:	Risks from tensions at the border and possibly renewed military conflict and the spillovers of the war in Ukraine, will slow down growth in the Armenian economy.	High	Armenia may face greater uncertainty, lower trade, investment, and remittances, exchange rate pressures, and food supply disruptions (e.g., due to ban on food items by Russia).	Enhance diplomacy, prepare, and implement contingency plans, strengthen social safety nets, diversify trade markets/channels, enhance monitoring of the financial sector, maintain flexibility of the exchange rate as a shock absorber. CBA interventions in the FX market in case to address disorderly market conditions.
High inflation	Higher aggregate demand, including due to the inflow of international visitors and money transfers, supply constraints, and surge in global and domestic food and energy prices could lead to prolonged periods of high inflation.	Medium	Persistent inflation above CBA's target and an extended period of monetary policy tightening may cause loss of access to finance, dampen economic activity, cause social discontent, and increase fiscal pressures. High food prices—including due to border disruptions—raise food security concerns.	Analyze drivers of inflation, anchor inflation expectations, deliver clear communication on monetary policy priorities, and proactively respond with adequate monetary policy adjustments, whenever required. Build external and fiscal buffers to provide targeted support to the most vulnerable, if needed.

Annex II. Illustrative Adverse Scenario

1. Armenia remains vulnerable to potential adverse shocks that could have a negative impact on the economy and international reserves. While Armenia's reserve position is expected to remain adequate under the baseline (Table 2), an adverse shock could worsen the current account and have a negative impact on capital inflows, erode existing buffers, and create a potential balance of payments need.

2. Adverse scenario. Staff simulates a contraction in real growth for Russia, the Euro Area, and the United States. Lower trading partners' growth is expected to lead to scarring of the economy, although growth rates are expected to recover in 2025. The scenario also envisages an increase in food prices due to the reemergence of supply chain disruptions along Armenia's trade routes with Russia, as well as a reversal in gross capital inflows observed since the beginning of the war in Ukraine. Key assumptions are consistent with the staff report for Armenia's SBA request (Annex III):[1]

- **Current account**. In an adverse scenario, goods exports contract by approximately 20 percent relative to the baseline (1.6 historical standard deviations in exports) due to weakening trading partners' demand. Goods imports initially increase by 3 percent in line with higher food prices, although total 2023 imports also reflect some import compression from lower growth and dram depreciation (see below). Staff also assumes a contraction in service exports (1.6 percent historical standard deviations in service credit), as well as a 40-percent decline in remittances, equivalent to 1.6 standard deviations of the historical change in net transfers.

- **Financial account.** While under the baseline scenario net capital inflows are projected to reach about USD0.6 billion in 2023, in the shock scenario, net inflows are expected to decline by approximately USD0.3 billion in the same year. The difference is equivalent to half of the increase in net deposit liability observed in 2022, relative to its historical average, and corresponds to 2 historical standard deviations in other capital flows.

3. Effects. The weaker current and financial account position would put downward pressure on the exchange rate, leading to a 26 percent nominal depreciation relative to the baseline, while growth and private consumption would decline due to weaker external demand and remittances. The current account would initially widen in response to lower exports and the increase in imports, while inflation would increase given the pass-through from nominal depreciation. After the initial shock, lower private consumption and the weaker exchange rate would lead to a progressive adjustment to the trade balance, in line with past crisis episodes, allowing the current account to gradually revert to the baseline projection.

[1] International Monetary Fund, "Republic of Armenia: Request for a Stand-By Arrangement" IMF Country Report 22/366, December 2022.

Table AII.1. Armenia: Impact of a Plausible External Shock

	2023		2024		2025	
	Baseline	Adverse Scenario	Baseline	Adverse Scenario	Baseline	Adverse Scenario
National income and prices:						
Real GDP (percent change)	5.5	-1.0	5.0	4.0	4.5	4.5
CPI (period average; percent change)	5.6	7.3	4.0	4.5	4.0	4.0
Overall fiscal balance on a cash basis (in percent of GDP)	-2.9	-4.7	-2.7	-3.4	-2.5	-2.5
Central Government's PPG debt (in percent)	47.2	60.1	47.7	56.7	49.2	53.1
Current account balance (in percent of GDP)	-1.6	-6.0	-3.0	-3.2	-3.6	-3.6
Gross international reserves (in millions of U.S. dollars)	4,248	2,738	4,268	2,951	4,274	3,227

Sources: National authorities and IMF staff estimates and projections.

4. **Policies.** The adverse scenario assumes that monetary tightening will control inflationary pressures stemming from the nominal depreciation. The central bank should remain ready to carry out targeted interventions to avoid disorderly conditions in FX markets. The CBA should let the exchange rate depreciate to serve as a shock-absorber in line with its inflation-targeting regime. The fiscal deficit would cumulatively increase by about 2.5 percent of GDP in 2023–24, as the authorities let automatic stabilizers operate, before reverting to its baseline projection in 2025. A larger budget deficit, together with the large dram depreciation, implies a temporary large increase in 2023 government debt, by approximately 13 percent relative to the baseline. Government debt would subsequently decline, consistent with a gradual appreciation of the currency and fiscal consolidation.

5. **Implications.** In a shock scenario, nominal gross international reserves would decline to approximately 95 percent of the ARA metric, creating a potential balance of payment need. Access to Fund resources at 100 percent of quota (SDR 128.8 million) and additional financing from development partners of USD 130 million during 2023–25 would ensure that reserves remain at or above 100 percent of the ARA metric over the duration of the program.

Table AII.2. Armenia: Potential Impact of Adverse Shocks

(In millions of U.S. dollars, unless otherwise indicated)

	Baseline			Shock		
	2023	**2024**	**2025**	**2023**	**2024**	**2025**
Current account	-381	-748	-947	-1,124	-634	-757
Exports G&S	11,407	11,949	12,407	10,232	9,548	9,938
Imports G&S	-12,273	-13,102	-13,761	-11,733	-10,441	-10,965
Incomes and transfers (net)	486	404	406	377	259	270
Capital & financial account	618	940	1,087	-268	940	1,087
Overall balance	237	192	139	-1,392	306	330
Financing						
Change in reserves (increase -)	-145	-20	-6	1,485	-134	-196
Net use of Fund credit (repurchase)	-92	-171	-134	-92	-171	-134
Gross international reserves	4248	4268	4274	2619	2753	2949
As % of ARA metric	**151**	**146**	**144**	**95**	**98**	**103**
Under the proposed IMF-supported program:						
Proposed IMF financing in adverse scenario				49	49	49
Assumed financing from development partners 1/				70	30	30
Gross international reserves				2738	2951	3227
As % of ARA metric				**99**	**106**	**113**

Source: IMF Staff calculations
1/ Estimated financing necessary to keep reserves close or above 100 of ARA metric during the program period.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Yerevan, May 22, 2023

Dear Ms. Georgieva:

1. **In the attached update to the Memorandum of Economic and Financial Policies (MEFP) from December 12, 2022, we describe our achievements and further policy steps and reforms needed to meet our IMF-supported program objectives.**

2. **Our economic program is off to a good start.** Economic activity grew robustly in 2022; inflation, although still elevated, is declining; fiscal and external positions strengthened substantially; and the banking system remains well capitalized and liquid. We met all quantitative performance criteria (QPC) and indicative targets (IT) for end-December and made steady progress toward meeting the structural benchmarks. We also completed a staff consultation on the inflation outlook in line with the monetary policy consultation clause (MPCC).

3. **We request modifications to the program.** We request that (i) the end-June 2023 QPC on the floor on net international reserves be raised to lock in recent gains; (ii) the end-June MPCC be lowered to reflect the recent moderation in the inflation rate; (iii) QPCs be set for end-December 2023; and (iv) new structural benchmarks be set as outlined in the attached MEFP.

4. **Based on steps that we have already taken and commitments under the program, we request completion of the first review.** We continue to treat the arrangement as precautionary and will only consider making purchases if our balance of payments deteriorates materially.

5. **We will maintain a close policy dialogue with the Fund and stand ready to take additional measures, as appropriate, to ensure the achievement of our social and economic objectives under the IMF–supported program.** We will continue to consult with the Fund on the adoption of measures, and in advance of any revisions of the policies contained in the attached MEFP in accordance with the Fund's policies on such consultation. We will also provide the Fund with information it requests for monitoring program implementation. Reaffirming our commitment to transparency, we consent to the IMF's publication of this letter, along with the attached MEFP and the Technical Memorandum of Understanding (TMU), as well as the IMF staff report on the first review of the SBA, subject to Executive Board approval.

Yours sincerely,

/s/
Nikol Pashinyan
Prime Minister

/s/
Vahe Hovhannisyan
Minister of Finance

/s/
Martin Galstyan
Governor, Central Bank of Armenia

Attachment I. Memorandum of Economic and Financial Policies

1. This memorandum supplements our memorandum of December 12, 2022, provides information on recent developments, documents our achievements, and discusses further policy steps and reforms needed to meet our IMF-supported program objectives.

A. Recent Economic Developments and Outlook

2. Armenia's 2022 economic performance was remarkably strong. Real GDP growth of 12.6 percent in 2022 was mainly driven by consumption and net exports and supported by investment. Inflation decelerated to 8.3 percent (y-o-y) in December 2022, benefiting from a decline in commodity prices, exchange rate appreciation, and monetary policy tightening. The external position and the dram strengthened considerably on the back of service trade as well as income and capital inflows, while international reserves increased by $873 million. The overall fiscal balance narrowed to 2.1 percent of GDP, and central government debt dropped to 46.7 percent of GDP in 2022, supported by robust nominal GDP growth, and significant AMD appreciation. Banks' capital, liquidity, and profitability have continued to strengthen.

3. We expect that growth will decelerate this year but will remain buoyant in the medium-term. We project that growth will ease, as income and capital inflows moderate, and global and domestic financial tightening continue, but will remain robust, including due to strong export of services and public capital spending. Inflation is projected to decrease but wage growth and increasing house prices will continue to put inflationary pressures. The risks to the outlook are significant, especially if projected growth in trading partners falters, geopolitical risks materialize, or capital inflows reverse. However, growth could also surprise on the upside in the event of stronger services exports and a renewed bout of income and capital inflows. Stronger implementation of structural reforms in the 2021–26 Government Program and an enabling investment environment would have a positive impact on medium-term growth. The large influx of highly-productive migrants, if sustained, could also provide an upside to potential growth.

B. Economic Policies for the Remainder of 2023 and Beyond

Fiscal Policy

4. We are committed to meeting the 2023 budget targets in line with the program and the fiscal rules. We anticipate that revenue buoyancy will improve, including due to strengthened revenue administration measures. Rising capital spending will focus on roads, schools, kindergartens, and water management, as well as on national security. We will allocate any budget overperformance to improving fiscal buffers and institutional resilience.

5. The upcoming 2024–26 Medium-Term Expenditure Framework (MTEF) aims to preserve macro-fiscal stability and support Armenia's development. While the debt burden has improved significantly, a moderate medium-term fiscal deficit reduction will keep debt below 50 percent of GDP and protect fiscal stability against exchange rate and growth risks. At the same time, we will focus our attention and efforts on expanding the fiscal space for priority development expenditures through revenue mobilization in line with the 2021–26 Government Program objectives. Our continued revenue administration efforts will be bolstered by new base-broadening tax policy measures and excise rate revisions. Our ongoing tax gap analysis can help identify actions to improve compliance and further raise the tax-to-GDP ratio in the medium term. With high needs for spending on healthcare, wages, education, social protection, and infrastructure, we aim to carefully cost and prioritize new spending initiatives and implement them alongside raising new permanent revenues. In this regard, we recently approved a concept note to gradually introduce a comprehensive health coverage system in Armenia. We plan to clarify its benefits package and financing sources over the course of 2023, including efficiency gains, and will integrate its estimated preliminary fiscal costs within the upcoming 2024–26 MTEF.

6. We have made important progress with fiscal structural reforms.

- *Revenue administration*. Our efforts to limit the use of cash transactions has improved revenue mobilization. To strengthen tax compliance and the audit powers of the State Revenue Committee (SRC), we have made amendments to the Tax Code. We have enabled the exchange of bank account information between the banks and the SRC to verify tax information provided by legal entities on court orders. We have also authorized the SRC to use new indirect audit methods, such as information received from public sources or third parties, to estimate tax liabilities when information from taxpayers is insufficient. Furthermore, we have drafted a tax-code amendment to empower the SRC to conduct risk-based tax inspections of natural persons once the universal PIT declaration is implemented. We have also made significant progress toward the introduction of income declarations. The reform will significantly ease the process of filing income taxes by electronic means, including mobile devices, and the SRC will be able to use automated information on bank interest payments and e-invoice system data to prefill potential deductions.

- *Public Financial Management*. To reduce fiscal risks from state-owned enterprises (SOEs), as a **prior action**, we will adopt a government decree clarifying the mandate of ANIF and its subsidiaries and establishing principles for its future reporting, transparency, and viability requirements. Until the full implementation of the decree, we will impose a moratorium on any new budgetary capital injections into ANIF and its subsidiaries. Furthermore, we will adopt a concept note for a state-ownership policy (**March 2024 SB**) defining the rationale for owning SOEs and the government's role in their oversight. We remain committed to strengthening the implementation rate and quality of government capital expenditures, including through our efforts to resolve bottlenecks in the execution of foreign-funded capital projects and an improved PIM framework. Further PFM improvement will focus on (i) publishing the terms of reference to develop software design for the implementation of a module with basic employee data as part of the new public sector accounting system of the Government Financial Management Information System (GFMIS), with the aim of improving the central government wage bill data quality (**December 2023 SB**); (ii) completing the functional review of the MOF as a first step towards a holistic public administration reform (**March 2024 SB**); and (iii) executing a memorandum of understanding among the CBA, MOF, and MoLSA to annually update the long-term pension projections. We have also allocated 2023 budgetary resources to conduct an independent audit of the COVID-19 on-lending programs and have sought assistance in drafting the terms of reference for an external auditor.

Monetary and Financial Sector Policies

7. The CBA will continue to be guided by its mandate of price stability. In this regard, we have increased the policy rate by a further 25 basis point since November 2022 to 10.75 percent, to gradually return inflation to the CBA's target of 4 percent. We will continue to monitor closely economic developments and stand ready to take necessary policy actions to achieve this target. To strengthen monetary policy transmission, we will prepare and adopt an enhanced CBA communication strategy for monetary policy (**March 2024 SB**), improve liquidity management, including in coordination with MOF, and continue to implement the action plan on financial markets development. In this regard, the already functioning over-the-counter commercial trading platform for the overnight repo market is an important step.

8. We are taking steadfast measures to mitigate the buildup of risks from rising house prices and fast-growing mortgage lending. In addition to introducing a loan-to-value (LTV) limit and adopting legislation to prohibit mortgages denominated in foreign currency for residents with income in national currency, we have increased the countercyclical capital buffer to 1.5 percent, with effect in August 2023. Conditional on continued buildup of risks in the housing market, to strengthen the effectiveness of our macroprudential toolkit, we will consider more binding LTV limits for dram mortgages. To mitigate the risk associated with the construction industry, the Government will amend the Civil Code to limit the use of funds in escrow accounts by property developers. In addition, to assess and identify the risks associated with real estate market, we will conduct a thorough macro-financial stress testing exercise, which will include a stress to household income and financial implications for property developers and associated spillovers (**December 2023 SB**). Furthermore, with IMF technical assistance support, the Government will explore ways to limit the use of the mortgage interest tax credits.

9. We have placed high priority on the improvement of our supervisory toolkit. We are on course to launching a formal roadmap for the introduction of Pillar 2 add-ons to banks' capital, based on the implementation of the supervisory review and evaluation process of banks (SREP). We will pay special attention to the assessment of interest rate risk in the banking book, including by better guiding banks in their internal capital adequacy assessment process (ICAAP). We have integrated and implemented an AML/CFT assessment in the SREP and are working on a methodology to assess operational risks, including from sanctions. We are finalizing the law on bank resolution to be presented to the CBA board in April 2023.

Structural Reforms

10. We remain committed to advancing structural reforms and strengthening the economy's resilience to future shocks.

- *Labor market*. To enhance labor market flexibility and reduce the high rate of structural unemployment in Armenia, we plan to introduce amendments in the labor code to regulate work arrangements and ease the transition from school to work. Furthermore, our employment strategy—currently under preparation—aims to improve the employment prospects of youth, women, working-age individuals in communities, and those engaged in public works. As data availability constrains our ability to conduct timely and effective policy assessment of the labor market conditions, we plan to modernize the employment data collection methodologies of the National Statistics Service.

- *Access to finance*. We have developed guidelines and are on course to adopt a concept note for the drafting of a new insolvency legislation, which will protect creditors rights, improve the efficiency of insolvency processes, upgrade the restructuring toolbox, and increase the capacity of insolvency administrators. Furthermore, with a view to reducing information asymmetries in credit markets and boosting access to finance, we will approve and ensure compliance with a newly revised corporate governance code (**December 2023 SB**).

- *Trade diversification*. We intend to encourage diversification in the country's export basket and markets, by completing and approving an export strategy that identifies (i) bottlenecks to trade expansion and (ii) the capacity to export high value-added products in third countries (**March 2024 SB**).

- *Agricultural sector*. To build the agricultural sector's resilience to climate change, we have extended the agricultural insurance support scheme to cover all regions, additional risks (including drought), and twelve crops ahead of the September 2023 schedule.

C. Program Monitoring and Safeguards

11. The program will continue being monitored through quantitative performance criteria, indicative targets (Table 1), a monetary policy consultation clause, and structural benchmarks (Tables 2a and 2b). The second and third reviews are expected to be completed on or after December 11, 2023, and June 10, 2024, respectively.

12. The CBA will continue maintaining a strong safeguards framework and internal controls environment. The IMF safeguards assessment mission completed in April 2023 confirmed that the CBA maintains a strong safeguards framework and has well established safeguards in its external and internal audit arrangements, and sound financial reporting practices. The CBA will take the necessary steps to implement the safeguards recommendations, particularly in relation to governance modalities, legal framework, and risk management activities, including for development lending to banks and subsidiaries of the central bank.

Table 1. Armenia: Quantitative Performance Criteria 1/

(In billions of drams, at program exchange rates, unless otherwise specified)

	2022				2023								2024	
	Dec. [2/]				Mar. [3/]		Jun. [2/]		Sep. [3/]		Dec. [2/]		March [3/]	Jun. [2/]
	IMF Report 22/366	Adjusted Target	Act.	Status	IMF Report 22/366	Act.	IMF Report 22/366	Rev. Prog.	IMF Report 22/366	Rev. Prog.	IMF Report 22/366	Rev. Prog.	Proj.	Proj.
Performance Criteria														
Net official international reserves (stock, floor, in millions of U.S. dollars) [4/]	1,600	1,457	1,703	Met	1,531	1,719	1,576	1,654	1,475	1,556	1,465	1,506	1,509	1,513
Program fiscal balance (flow, floor) [5/9/]	-384		-321	Met	-124	…	-211	-211	-315	-314	-465	-465	-121	-198
Budget domestic lending (cumulative flow, ceiling) [9/]	5		0.3	Met	10	…	10	10	10	10	10	10	10	10
External public debt arrears (stock, ceiling, continuous criterion)	0		0	Met	0	…	0	0	0	0	0	0	0	0
MPCC [6/]														
Inflation (upper-outer band, inflation consultation, percent)	12.5				11.5		10.5	8.0	9.5	7.5	8.5	7.0	6.5	6.5
Inflation (upper-inner band, percent)	11.5				10.5		9.5	7.0	8.5	6.5	7.5	6.0	5.5	5.5
Inflation (mid-point, percent)	10.0		8.3	Not met	9.0	5.4	8.0	5.5	7.0	5.0	6.0	4.5	4.0	4.0
inflation (lower-inner band, percent)	8.5				7.5		6.5	4.0	5.5	3.5	4.5	3.0	2.5	2.5
Inflation (lower-outer band, inflation consultation, percent)	7.5				6.5		5.5	3.0	4.5	2.5	3.5	2.0	1.5	1.5
Indicative Targets														
New government guaranteed external debt (stock, ceiling, in millions of USD) [7/]	100		0	Met	…	…	…		…		100		…	…
Social assistance spending of the government (flow, floor) [8/9/]	65.0		75.9	Met	20.0	…	40.1		60.1		80.2		22.0	44.0

Sources: Armenian authorities; and Fund staff estimates.

1/ All items as defined in the TMU, based on program exchange rates in the TMU.

2/ Quantitative performance criteria at test dates.

3/ Indicative target.

4/ March 2023 figure is preliminary, i.e. without closing entries.

5/ Below-the-line overall balance excluding net lending.

6/ If the end of period year-on-year headline inflation is outside the upper-outer/lower-outer band, a formal consultation with the Executive Board as part of program reviews would be triggered. If the end of period year-on-year headline inflation is outside the upper-inner/lower-inner band, an informal consultation with IMF staff as part of program reviews would be triggered.

7/ Includes both concessional and non-concessional debt, excluding the Eurobond and any simliar refinancing instruments.

8/ Defined as spending on the Family Living Standards Enhancement Benefits, childcare benefits for children less than two years of age, and Allowances for old age, disability, and loss of breadwinner.

9/ Cumulative limit.

Table 2a. Armenia: Prior Action and Structural Benchmarks for the 1st Review

Deadline	Status	Macro Criticality	Responsible Agency	Measure
Fiscal Policy and Fiscal Structural Reforms				
March 2023	Prior Action	Improve public financial management and reduce fiscal risks	DPM/MOE/MOF	Adopt a government decree clarifying the mandate, reporting, transparency, and viability requirements for ANIF and its subsidiaries, based on the concept note developed for public sector units.
March 2023	Not met/rescheduled for December 2023	Improve tax compliance	MOF/SRC	Amend the Tax Code to empower the SRC with authority to audit natural persons and include broader indirect audit methods.
March 2023	Met		DPM/CBA/MOF/ SRC	Amend the legislation to allow exchange of bank account information for legal entities on request to verify information provided by taxpayers between the banks and SRC, and to allow SRC access to bank account information for legal entities refusing to provide it upon a court order.
Monetary Policy and Financial Sector Reforms				
March 2023	Met	Capital market development	CBA	Facilitate the introduction of an over-the-counter commercial trading platform for the overnight repo market.
Structural Reforms				
September 2023	Met ahead of schedule	Improve the business environment	MOE	Expand the agricultural insurance scheme to cover more risks, regions, and crops.

Table 2b. Armenia: New Proposed Structural Benchmarks

Deadline	Macro Criticality	Responsible Agency	Measure
Fiscal Policy and Fiscal Structural Reforms			
December 2023	Improve tax compliance	MOF/SRC	Amend the Tax Code to empower the SRC with authority to audit natural persons and include broader indirect audit methods.
December 2023	Improve efficiency of civil service compensation	MOF	Publish the terms of reference to develop software design for the implementation of a module with basic employee data as part of the new public sector accounting system of the Government Financial Management Information System (GFMIS), with the aim to improve central government wage bill data quality.
March 2024	Improve public financial management	MOF	Complete a functional review of the Ministry of Finance, as a step towards an eventual review of all general government institutions.
		MOF	Adopt a Concept Note for a State Ownership Policy, defining the rationale for owning SOEs and the government's role in their oversight.
Monetary Policy and Financial Sector Reforms			
December 2023	Mitigate real estate market risks	CBA	Conduct a thorough macro-financial stress testing exercise with an adverse scenario that implies a rise in balance sheet stress of property developers, significant deterioration of household income, and a sharp decline in house prices
March 2024	Enhance monetary policy transparency	CBA	Prepare and adopt an enhanced CBA communication strategy on monetary policy.
Structural Reforms			
December 2023	Improve the business environment	MOE	Approve the newly revised corporate governance code.
March 2024	Support export-oriented growth	MOE	Complete and approve an export strategy that identifies and streamlines bottlenecks to export expansion.

Attachment II. Technical Memorandum of Understanding

1. This memorandum sets out understandings between the Armenian authorities and the IMF staff regarding the definition of performance criteria (PCs) and indicative targets (ITs), adjusters, and data reporting requirements for the Standby Arrangement as per the Letter of Intent and Memorandum of Economic and Financial Policies (LOI/MEFP) dated May 22, 2023.

2. For program monitoring purposes, all foreign currency-related assets, liabilities, and flows in the monetary accounts will be evaluated at program exchange rates. The program exchange rate of the Armenian dram to the U.S. dollar is set at 405.65 dram per one U.S. dollar. The cross-rates for other foreign currencies are provided in Table 1.

QUANTITATIVE TARGETS

3. The program sets PCs, ITs, and the Monetary Policy Consultation Clause (MPCC) for defined test dates (see Table 1 in the MEFP).

The program sets the following PCs:

- Floor on the net official international reserves (NIR) of the Central Bank of Armenia (CBA);
- Floor on the program fiscal balance;
- Ceiling on domestic budgetary lending; and,
- Ceiling on the stock of external public debt arrears (continuous).

The program sets the following ITs:

- Ceiling on new government guaranteed external debt; and,
- Floor on social spending of the government.

The program sets the following MPCC:

- Headline inflation.

4. **The net official international reserves** (NIR) (stock) of the Central Bank of Armenia (CBA) will be calculated as the difference between total gross official international reserves (excluding commercial bank required and excess reserves at CBA in FX) and gross official reserve liabilities.

- **Gross official international reserves** are defined as the CBA's holdings of monetary gold (excluding amounts pledged as collateral), holdings of Special Drawing Rights (SDRs), including SDR allocations, the country's reserve position at the IMF, and holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments). Gross reserves held in the form of securities and other financial instruments are marked to market. Excluded from gross reserves are the balance on the government's Special Privatization Account (SPA), capital subscriptions in foreign financial institutions and illiquid foreign assets, any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

- **Official reserve liabilities** shall be defined as the total outstanding liabilities of the government and the CBA to the IMF (excluding SDR allocations) and convertible currency liabilities of the CBA to nonresidents with an original maturity of up to and including one year, as well as commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options).

NIR is monitored in U.S. dollars, and, for program monitoring purposes, assets and liabilities in convertible currencies other than the U.S. dollar shall be converted into dollar-equivalent values using the convertible exchange rates as specified in Table 1.

5. MPCC headline inflation is defined as the year-on-year rate of change of the Consumer Price Index as measured by Armenia's National Statistics Service. The MPCC will be considered met if headline inflation falls within the upper and lower (outer bands) around the mid-point target specified in Table 1 in the LOI/MEFP. Consultation with IMF Board would be triggered for end June 2023 test date if inflation falls outside the outer bands. The consultation with the Board will be on the reasons for the deviation and the proposed policy response before further purchases could be requested under the SBA. Specifically, the consultation will explain (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for deviations from the specified band, taking into account compensating factors; and (iii) on proposed remedial actions, as deemed necessary. In addition, a staff consultation clause whereby the CBA will consult with IMF staff on the outlook for inflation and the proposed policy response will be triggered if inflation falls outside the inner bands and within the outer bands (Table 1 in the LOI/MEFP) for the June 2023 test date.

Inflation Consultation Bands

	Jun-23	Dec-23
Upper outer band	8.0	7.0
Upper inner band	7.0	6.0
Center point	**5.5**	**4.5**
Lower Inner band	4.0	3.0
Lower outer band	3.0	2.0

Source: IMF Staff.

6. External public debt arrears are defined as external debt obligations of the government that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods).[1] This PC excludes arrears on external financial obligations of the government subject to rescheduling.[2] This PC is to be monitored continuously by the authorities

[1] The term debt will be understood as defined in Guidelines on Public Debt Conditionality in Fund Arrangements, IMF Policy Paper, 2020/061.

[2] The public sector is here defined following the Government Financial Statistics Manual (GFS 2001) and System of National Accounts (1993 SNA). It includes the general government and nonfinancial public enterprises (as defined in paragraph 14).

and any occurrence of new external arrears should be immediately reported to the Fund. The ceiling on external payment arrears is set at zero.

7. **The program fiscal balance** is cumulative from the beginning of the fiscal year and is measured from the financing side as the negative of the sum of net domestic banking system credit to the central government, net domestic nonbank financing, and net external financing to the central government. Should a general subsidy or any other fiscal transaction be introduced off-budget, the overall balance will be measured including the subsidy and other fiscal transactions as part of government spending.

- **Net banking system credit to the central government** equals the change during the period of net credit to the central government.

- **Net nonbank financing** equals the sum of: (1) the change during the period of outstanding treasury bills and bonds to nonbanks (including accrued interest for treasury bills and excluding accrued interest for treasury bonds);[3] (2) any other disbursement or transaction that increases nonbanks' claims on the central government plus withdrawals from the Special Privatization Account (SPA) or the treasury sub-account containing privatization proceeds in drams, less amortization paid by the central government to private resident nonbank agents.

- **Net external financing** equals total debt-increasing disbursements from non-residents to the central government (including Fund net purchases credited directly to the government accounts at the CBA) less total amortization from the central government to non-residents. Net external financing also includes any privatization proceeds received from non-residents in foreign currency and not held in the SPA.

8. **Budgetary ER.** Foreign currency-denominated transactions take place at the prevailing market ER at the time of the transaction. The framework arrangement will not be modified (in substance) but may be clarified to the extent necessary to avoid noncompliance with the program continuous PC on non-introduction of new exchange restrictions and multiple-currency practices, or intensification/modification of existing ones

9. External and domestic net lending, which are recorded as financing items, are excluded from the calculation of the program fiscal balance, which is calculated from the financing side (see ¶7). This effectively treats net lending as an expenditure item when loans are made and as a revenue item when the loans are repaid

10. Transactions related to the extension of the operating life of the Metsamor nuclear power station—which will take place via lending from the Russian Federation to the Ministry of Finance of Armenia and from the MoF of Armenia to the Armenian Nuclear Power Plant JSC—will be excluded from the measure of the program fiscal deficit.

[3] Domestic nonbank holdings of treasury bills and treasury bonds are defined as total outstanding treasury bills and bonds less holdings by the banking system and the State Fund for Social Insurance.

11. Some project implementation units maintain accounts at the CBA. Grants received by these units are recorded in the fiscal accounts as external grants on the revenue side and as foreign-financed expenditure on the expenditure side. In addition, any loans to finance investments that are intermediated through the banking system are recorded in the financial accounts as a financing item below the line and are thus excluded from net lending.

12. Foreign currency proceeds from selling enterprises are credited to the SPA and their use is reflected in the state budget. In addition, the Government will ensure full transparency of revenues and spending from the sales of major assets (beyond regular day-to-day operations) of enterprises with state ownership. The SPA is held at the CBA and the proceeds are invested abroad together with the CBA's international reserves. These proceeds are included in the definition of the monetary accounts of the CBA as part of net foreign assets with a counter entry in other items net. Any withdrawal from the SPA will be accounted for as privatization proceeds used to finance the budget and will be recorded below the line. Domestic currency proceeds from selling enterprises to residents are deposited in a sub-account of the treasury single account and are also treated as a financing item and recorded below the line. Finally, as noted in ¶7, privatization proceeds received from non-residents in foreign currency and not held in the SPA are also treated as a financing item (sale of financial assets) and recorded below the line.

13. **Domestic budgetary lending** is defined as the gross amount of new loans made to resident individuals, enterprises, or entities financed from the state budget or other general government resources. This includes, but is not limited to, loans financed from the Economic Stabilization Fund and lending under existing or prospective government programs, such as agricultural sector support and real estate development programs, among others. Lending operations related to targeted projects financed with external loans and grants will be excluded from the calculation of the ceiling on budget domestic lending.

14. **Ceiling on government guaranteed external debt.** A cumulative ceiling (IT) of $100 million for the program period applies to new government guarantees of the total of concessional and non-concessional external financing, excluding the Eurobond and any similar refinancing instruments. The issuance of debt guarantees will be measured at the exchange rates listed in Table 1. The above limit covers debt guarantees issued by the general government to entities outside the general government (excluding the CBA). Guarantee issuance will be monitored on a monthly basis and the Ministry of Finance will provide data within 21 days from the end of the month.

15. The program sets a floor on **social assistance spending of the government**. For the purposes of the program, social assistance spending of the government comprises the Family Living Standards Enhancement Benefits, childcare benefits for children less than two years of age, and allowances for old age, disability, and loss of breadwinner.

16. The quantitative performance criteria and indicative targets under the program are subject to the following **adjusters**, calculated, where relevant, using program exchange rates:

- **Budget support grants to the public sector** are defined as grants received by the general government for direct budget support from external donors and not related to project financing.

- **Project support grants** are defined as grants received by the general government for public sector projects.

- **Budget support loans to the public sector** are defined as disbursements of commercial loans (e.g., Eurobonds), loans from bilateral and multilateral donors for budget support, and Fund purchases credited directly to the government accounts at the CBA.

- **Project financing to the public sector** is defined as disbursements of loans from bilateral and multilateral donors for public sector projects.

- **The floor on NIR** will be adjusted upward (downward) by the cumulative amount of any excess (shortfall) of budget support grants and loans, CBA project financing, EEU customs pool transfers, and government project financing loans and grants (including for onlending) disbursed through the CBA, compared to program amounts as indicated in Table 2. The floor on NIR will be adjusted downward for any external public debt amortization amounts in excess of program amounts. The floor on NIR will be adjusted upwards by the amount of any funds received for privatization proceeds received from non-residents in foreign currency and not held in the SPA.

- **The floor on the program fiscal balance on a cash basis** will be adjusted upward (downward) by the cumulative total amount of the budget support grants received in excess (to account for a shortfall) of the program amounts (Table 2), subject to a cap of $100 million per year in either direction. The floor on the program fiscal balance on a cash basis will also be adjusted downward (upward) by the cumulative total amount of the project financing loans received in excess (to account for a shortfall) of the program amounts (Table 2), subject to a cap of $100 million in either direction.

- **The ceiling on domestic budgetary lending** will be adjusted upward by the amount of undisbursed funds under domestic budgetary lending programs approved in the previous year.

DATA REPORTING

17. The government and the CBA will provide the IMF the information specified in the following table:

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
CBA	CBA balance sheet	Summary	Daily	The following working day
	CBA balance sheet	Summary at program exchange rates; and by chart of accounts at actual official exchange rates	Monthly	Within 25 days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank at both program exchange rates and by chart of accounts at actual official exchange rates; the consolidated balance sheet of commercial banks by chart of accounts at actual official exchange rates	Monthly	Within 25 days of the end of each month
	International reserves	By chart of accounts; at (i) program exchange rates; and (ii) at actual official exchange rates	Daily	The following working day
	Foreign exchange market	Official exchange rates (buying and selling); daily trade volume, and weighted average exchange rate of the interbank, intrabank and Nasdaq-OMX	Daily	Within 1 day
	Foreign exchange market	CBA foreign exchange operations, (exchange rate, volume)	Daily	Within 1 day
	Interest rates	Refinance rate	At least monthly	Within 1 days of the CBA Board decision
	Interbank money market	Daily interbank repo volume and interest rate and number of trades	Daily	Within 1 day
	CBA operations	Repo (reverse repo) operations, open market operations, Lombard credits, deposit facility, and foreign exchange swaps (volumes, maturity, yields, exchange rates)	Daily	Within 1 day
	Bank liquidity	Reserves and excess reserves, by currency	Monthly	Within 15 days of the end of each reference period
	Interest rates and flows of the funds attracted and	By currency and maturity	Weekly	First working day of the next week

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	allocated by commercial banks			
	T-bill and coupon bond financing, CBA securities	Auction data: date, original and remaining maturities, issuance volume, allocation, average yield and coupon yield (if available)	Monthly	First working day of the next month
	Banking data	Sectoral distribution of loans and deposits; dollarization of loans and deposits; loan maturities; interbank rate, by volume and maturity; T-bill rate, bond yield; deposit and lending rates, by maturity; monthly weighted average interest rate on government bonds	Monthly	Within 25 days of the end of each month
	Banking indicators	Capital adequacy; asset composition and quality; profitability; liquidity; open FX positions; and compliance with prudential norms	Monthly	Within 30 days of the end of each month
	Banking sector stress tests	Results of stress tests on exchange rate, liquidity, and credit risk	Monthly	Within 30 days of the end of each month
	On-lending via commercial banks	On lending via the CBA and government (from, KfW, WB, ADB, etc.) by type of on-lending projects (including loan disbursements and repayments)	Monthly	Within 10 days of the end of each month.
	CPI	Index of core inflation	Monthly	Within 21 days of the end of each month
	Transfers	Non-commercial transfers of individuals	Monthly	Within 35 of the end of each month
	Other monetary data	IFS format	Monthly	Within 45 days of the end of each month
	Balance of payments	Detailed balance of payments data	Quarterly	Within 95 days of the end of each quarter

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	T-bill and coupon bond financing	By holders, i.e., CBA, resident banks, resident nonbanks, and nonresidents	Monthly	Within 7 days of each month
	External debt	Disbursements and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the CBA, and state-owned companies (by company); any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears	Monthly	Within 21 days of the end of each month. For project implementation units, within 21 days of the end of each month (preliminary data) and within 45 days of the end of each month (final data)
Ministry of Finance	Revenue collection	Total revenue collected separately by the tax administration and customs administration, including revenue by individual tax, license fee for export of minerals, social contributions and army servicemen insurance fund contributions.	Monthly	Within 7 days of the end of each month
	Treasury single account (TSA)	Detailed breakdown of central treasury account, including deposits at the central treasury, Special Privatization Account, off budget account, monetization account, state budget account and the Republic correspondent account—flows during the month and end of month stocks.	Monthly	Within 7 days of the end of each month
	Consolidated central government	State budget	Monthly	Within 30 days of the end of each month
	Consolidated general government	Central and local governments, and Non-Commercial Enterprises that belong within the general	Quarterly	Within 60 days of the end of each quarter

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		government (NCEs)		
	Consolidated general government	Central and local governments, and NCEs that belong within the general government	Annual	Within 180 days of the end of each year
	Budget execution	All cash receipts, cash expenditures, including domestic and external debt-service payments, external and domestic borrowing and lending operations, and inflow of grants to the central government; expenditure data will be provided according to both economic and functional classifications, consistent with the GFSM2001 methodology	Monthly	Within one month following the end of each month.
National Statistical Service	Trade Statistics	Detailed export and import data	Monthly	Within 28 days of the end of each month
	Balance of payments	Detailed BOP data	Quarterly	Within 45 days of the end of each quarter
	CPI	By category	Monthly	Within 21 days of the end of each month
State Revenue Committee	Tax arrears	By type of tax	Monthly	Within 30 days of the end of each quarter (monthly data provided on a quarterly basis)
	Large taxpayers	Data on the number of taxpayers and amount of taxes collected from taxpayers included in the list for special control approved annually by the chairman of SRC	Monthly	Within 45 days after the end of each month
	Risk-based selection	Percentage of selected companies chosen on the basis of risk-based approach, and identified	Monthly	Within 45 days of the end of each quarter

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		additional revenue to be collected from risk-based audits		(monthly data provided on a quarterly basis)
	Pension system	Number of participants in the pension second pillar, social payments and funded contributions	Monthly	Within two months of the end of each quarter (monthly data provided on a quarterly basis)

Table 1. Armenia: (Program) Exchange Rates of the CBA

(As of September 30, 2022, in U.S. dollars per currency rates)

		USD 1/	AMD 2/
AMD	Armenian Dram	0.002	1.00
XDR	SDR	1.280	519.18
USD	U.S. Dollar	1.000	405.65
CHF	Swiss Franc	1.016	412.02
GBP	Pound Sterling	1.113	451.65
JPY	Japanese Yen	0.007	2.80
EUR	EURO	0.980	397.42
CNY	Chinese Yuan	0.141	57.03
AUD	Australian Dollar	0.644	261.12
CAD	Canadian Dollar	0.727	294.98
XAU	Gold (1 gram)	53.81	21828.03

Sources: Central Bank of Armenia, Federal Reserve, Haver, and IMF staff calculations.

1/ USD cross rates

2/ Staff calculations based on the USD cross rates specified in column 1/.

Table 2. Armenia: External Disbursements through the CBA in 2023–24 1/

(In millions of U.S. dollars)

	Mar-23 Prog.	Jun-23 Prog.	Sep-23 Prog.	Dec-23 Prog.	Mar-24 Prog.	Jun-24 Prog.
Budget support grants	0	0	0	3	0	0
Budget support loans	0	150	150	150	0	0
Project support grants	11	20	30	42	5	16
Project financing loans	58	132	256	358	92	221
CBA project loans	6	71	136	199	25	80
EEU transfers	0	0	0	0	0	0
Privatization proceeds	0	0	0	0	0	0
Amortization	-59	-132	-229	-344	-95	-212

1/ Cumulative during the year