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REPUBLIC OF ARMENIA

June 2024

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

In the context of the Third 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, 2024, with the officials of the Republic of Armenia on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on May 22, 2024.

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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PRESS RELEASE

PR 24/218

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

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the third review under the Stand-By Arrangement (SBA) with Armenia, providing the country with access to SDR 18.4 million (about US$24.5 million).*
- *On the back of high domestic and external demand, GDP growth remained strong by historical standards at 8.7 percent in 2023 and is expected to moderate to a more sustainable level of around 6 percent in 2024.*
- *The SBA, which the Armenian authorities are treating as precautionary, aims to support the government's policy and reform agenda to preserve economic and financial stability and support strong, inclusive, and sustainable growth.*

Washington, DC – June 12, 2024: The Executive Board of the International Monetary Fund (IMF) completed the third 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 73.6 million (about US$97.7 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 third review of the SBA was taken without a meeting.[1]

Armenia's strong growth momentum continued in 2023, with the economy growing by 8.7 percent, supported by robust private consumption, trade, and investment. Inflation declined significantly, reaching -0.7 percent in April year-on-year, mainly due to lower global and domestic prices of key food items, Dram appreciation, and tight financial conditions. The current account deficit remained contained at 2.0 percent of GDP in 2023, supported by strong tourism. The 2023 fiscal deficit at 2 percent of GDP was lower than anticipated due to spending under-execution. The banking system has strong capital and liquidity buffers, and its profitability continues to remain high.

Growth is expected to moderate but to remain robust at 6.0 percent in 2024, driven by consumption and public capital spending. Inflation is expected to pick up in the second half of the year. Risks to the outlook are elevated, stemming from geopolitical and regional tensions, potential slowdown in major trading partners, lower trade, and capital outflows. Growth could also surprise on the upside in the event of stronger-than-anticipated export receipts, and faster implementation of structural reforms.

[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 quantitative performance criteria and indicative targets for end-December 2023 were met. However, low inflation breached the lower outer MPCC band. Progress on structural benchmarks continues, with all but two completed, some with delay.

The uncertain outlook calls for continued prudent policies and steadfast implementation of structural reforms:

- Fiscal policy should strike a balance between preserving macro-fiscal stability and accommodating rising spending pressures. Careful spending prioritization and decisive tax policy and revenue administration efforts will be needed to create fiscal space, including for social integration, security spending, further infrastructure development, and a healthcare overhaul.

- The Central Bank of Armenia (CBA) has successfully lowered inflation, but inflation is likely to remain volatile, and future policy rate decisions should remain dependent on the evolution of inflation and inflation expectations. The flexible exchange rate should continue to serve as a key shock absorber, with foreign exchange interventions limited to addressing disorderly market conditions and opportunistically building reserves to maintain strong buffers.

- Structural reforms should focus on strengthening revenue mobilization, fiscal risk and public investment management, the CBA’s supervisory framework, the employment and social assistance programs, export diversification, enhancing governance, and reducing corruption vulnerabilities.

Table 1. Armenia: Selected Economic and Financial Indicators, 2021–29

	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Prel.			Proj.			
National income and prices:									
Real GDP (percent change)	5.7	12.6	8.7	6.0	5.3	4.5	4.5	4.5	4.5
Final consumption expenditure, Contrib. to Growth	1.2	4.8	6.6	5.8	3.2	3.1	2.9	2.7	3.0
Gross fixed capital formation, Contrib. to Growth	4.2	1.7	2.2	2.1	2.3	2.0	2.1	2.0	2.0
Changes in inventories, Contrib. to Growth	0.3	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net exports of goods and services, Contrib. to Growth	0.1	6.3	0.2	-1.9	-0.3	-0.6	-0.5	-0.3	-0.5
Gross domestic product (in billions of drams)	6,992	8,501	9,503	10,396	11,381	12,363	13,437	14,605	15,875
Gross domestic product (in millions of U.S. dollars)	13,879	19,514	24,212	25,210	26,938	28,935	31,086	33,397	35,896
Gross domestic product per capita (in U.S. dollars)	4,685	6,572	8,095	8,428	9,005	9,672	10,390	11,162	11,996
CPI (period average; percent change)	7.2	8.6	2.0	2.2	3.8	4.0	4.0	4.0	4.0
CPI (end of period; percent change)	7.7	8.3	-0.6	3.3	4.0	4.0	4.0	4.0	4.0
GDP deflator (percent change)	7.0	8.0	2.8	3.2	4.0	4.0	4.0	4.0	4.0
Unemployment rate (in percent)	15.5	13.5	12.6	13.0	13.5	14.0	14.0	14.0	14.0
Investment and saving (in percent of GDP)									
Investment	23.0	21.6	21.3	20.6	20.4	20.2	20.3	19.9	19.5
National savings	19.5	22.4	19.2	18.0	15.6	15.3	15.3	15.0	14.5
Money and credit (end of period)									
Reserve money (percent change)	17.1	5.0	-4.0	6.2	7.7	7.9	7.9	7.9	7.9
Broad money (percent change)	13.1	16.1	17.4	13.9	8.1	8.7	8.7	8.7	8.7
Private sector credit growth (percent change)	-3.9	4.5	18.5	11.4	9.2	9.7	9.7	9.7	9.7
Central government operations (in percent of GDP)									
Revenue and grants	24.1	24.3	24.8	25.6	25.7	26.6	26.8	26.4	26.5
Of which: tax revenue	22.1	21.9	22.4	23.4	23.7	24.2	24.4	24.5	24.6
Expenditure 1/	28.7	26.4	26.8	30.2	30.3	30.9	30.6	29.9	29.7
Overall balance on a cash basis 1/	-4.6	-2.1	-2.0	-4.6	-4.6	-4.3	-3.8	-3.5	-3.2
Public and publicly-guaranteed (PPG) debt (in percent of GDP)	63.4	49.2	50.5	52.5	53.1	53.3	53.2	53.0	52.1
Central Government's PPG debt (in percent)	60.2	46.7	48.1	49.9	50.8	51.5	51.7	51.4	50.7
Share of foreign currency debt (in percent)	71.2	62.1	52.7	56.3	57.8	57.8	58.8	60.0	61.3
External sector									
Exports of goods and services (in millions of U.S. dollars)	5,012	10,038	14,131	13,933	12,518	12,493	12,901	13,324	13,897
Imports of goods and services (in millions of U.S. dollars)	-6,120	-10,186	-14,280	-14,678	-13,885	-13,955	-14,528	-15,101	-15,849
Exports of goods and services (percent change)	31.3	100.3	40.8	-1.4	-10.2	-0.2	3.3	3.3	4.3
Imports of goods and services (percent change)	20.4	66.5	40.2	2.8	-5.4	0.5	4.1	3.9	5.0
Current account balance (in percent of GDP)	-3.5	0.8	-2.1	-2.5	-4.9	-4.9	-4.9	-4.9	-5.0
FDI (net, in millions of U.S. dollars)	342	948	389	316	437	454	468	492	516
Gross international reserves (in millions of U.S. dollars)	3,230	4,112	3,602	3,748	3,486	3,458	3,450	3,469	3,665
Import cover 2/	3.8	3.5	2.9	3.2	3.0	2.9	2.7	2.6	2.6
End-of-period exchange rate (dram per U.S. dollar)	480	394	405	...	...	...	...	...	...
Average exchange rate (dram per U.S. dollar)	504	436	392	...	...	...	...	...	...

Sources: Armenian authorities; and Fund staff estimates and projections.
1/ Acquisition of non-financial assets may increase, and the balance may decrease, by an amount of AMD 107.0 billion in 2025, AMD 86.6 billion in 2026, and AMD 95.0 billion in 2027 on account of investment spending in high-quality foreign financed projects above the amount of AMD 67.2 billion.
2/ Gross international reserves in months of next year's imports of goods and services, including the SDR holdings.

REPUBLIC OF ARMENIA

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

May 22, 2024

EXECUTIVE SUMMARY

Context. The Armenian economy continues to perform strongly, and the outlook is broadly positive. Growth is decelerating gradually to more sustainable levels, as foreign exchange and migrant inflows peter out. Inflation has rapidly declined due to low imported food and energy inflation, Dram appreciation, and tight monetary policy. The uncertain external environment, however, poses sizeable risks, including from a slowdown in main trading partners, geopolitical tensions, and a possible reversal of capital flows.

Program implementation is broadly on track. All quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December 2023 were met. However, low inflation breached the lower outer MPCC band, triggering a consultation with the Executive Board. Progress on structural benchmarks (SB) continues, with all but two completed, some with delay.

Policy priorities. The uncertain outlook calls for continued prudent policies and steadfast implementation of structural reforms. Fiscal policy should strike a balance between preserving macro-fiscal stability and accommodating rising spending pressures, with continued revenue mobilization efforts to build fiscal space. The Central Bank of Armenia (CBA) has successfully lowered inflation, but inflation is likely to remain volatile, and future rate decisions should remain dependent on the evolution of inflation and inflation expectations. Structural reforms should focus on strengthening revenue mobilization, fiscal risk and public investment management, the CBA's supervisory framework, the employment and social assistance programs, export diversification, enhancing governance, and reducing corruption vulnerabilities.

Third review. Given the authorities' strong commitment to the program's objectives, staff supports their request for completion of the third review, consultation under the MPCC, and modifications of QPC and MPCC. Upon completion of this review, a disbursement of SDR18.4 million will be made available to Armenia. The authorities continue to treat the SBA as precautionary.

Approved By
Thanos Arvanitis (MCD) and Fabian Bornhorst (SPR)

Discussions were held during March 11–21, 2024 in Yerevan. The team comprised I. Petrova (Head), M. Al Taj, H. Fuje, D. Kadissi (MCD), U. Rawat (Resident Representative), A. Carvalho (MCM), M. Coelho (FAD), and L. O'Sullivan (SPR). M. Aleksanyan, V. Janvelyan and L. Karapetyan (IMF Office) supported the mission on the ground, and N. Belhocine (MCD) supported from headquarters. V. Rashkovan (OED) participated in meetings with the authorities. X. Shen (MCD) provided research assistance, 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 Papoyan, and other senior government officials.

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DEVELOPMENTS AND PROGRAM IMPLEMENTATION

A. Context

1. Armenia continues to benefit from positive external spillovers and strong fundamentals. The onset of Russia's war in Ukraine led to a significant influx of workers and capital to Armenia, raised trade and tourism receipts, and boosted real GDP growth to unprecedented levels. Inflation, which peaked in the wake of the war in Ukraine, has quickly subsided due to low food and commodity prices, Dram appreciation and the lagged effect of monetary tightening. Fiscal, external, and financial sector buffers are adequate.

2. The regional geopolitical situation remains complex. Peace discussions with Azerbaijan to reach understandings over border delineation and territorial control have continued. However, the uncertain security situation and perceived concessions to Azerbaijan weigh on public sentiment, with demonstrations being staged in the capital. The government has noted its intention to continue the negotiations for normalizing relations with Azerbaijan and avert further conflict between the two countries.

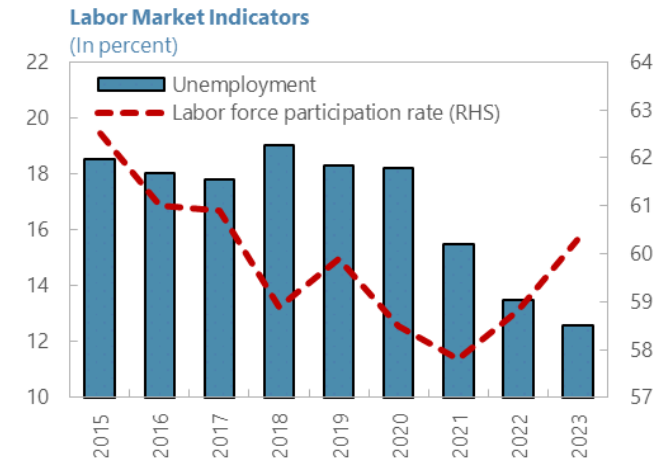
3. Armenia's three-year Stand-By-Arrangement (SBA) is broadly on track. The program, approved in December 2022, aims at ensuring economic policy continuity, advancing structural reforms, and maintaining macroeconomic, financial, and fiscal stability. The second review was successfully completed on December 11, 2023. The authorities remain committed to program objectives and intend to continue treating the SBA as precautionary.

B. Recent Economic Developments

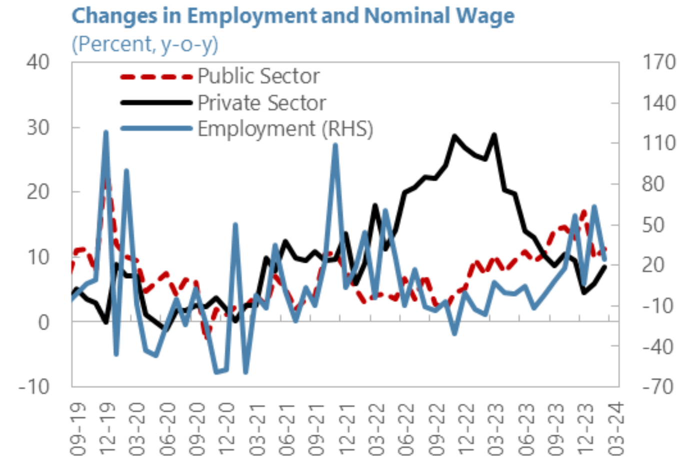
4. Economic activity remains exceptionally strong. Real GDP growth in 2023 reached 8.7 percent supported by consumption and external demand. High frequency indicators show growth of 14.3 percent in January–March driven by jewelry production and IT, wholesale, and retail trade services. Nonetheless, growth-inducing foreign exchange inflows from Russia are petering out, and net exports have decelerated (Figure 1).[1]

5. The labor market is showing tentative signs of cooling off. The unemployment rate stabilized around 12.5 percent in 2023 after reaching a low of 11.6 percent in 2022Q3 (Figure 1). Nominal wage growth has also come down from its peak of 28 percent in 2023Q1, settling around 10.5 percent in the second half of 2023, as a new wave of working-age migrants started to gradually integrate into the labor market. Nonetheless, wage and employment growth continue to be historically high.

[1] Excluding likely temporary gold re-exports, real GDP growth has slowed to 7.2 percent in March 2024.

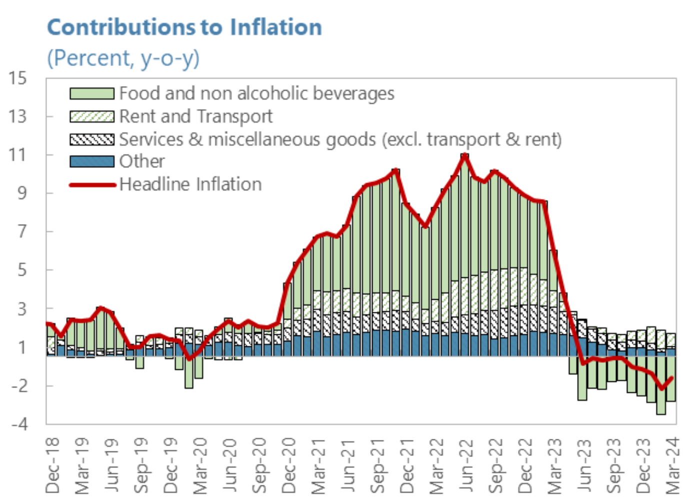


Sources: Haver and national authorities.

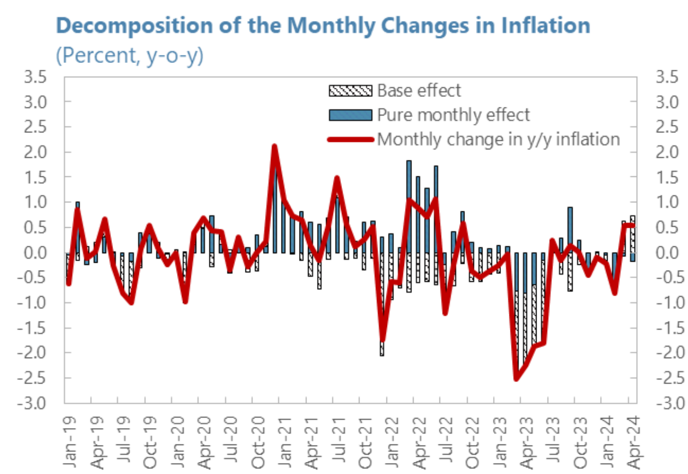


Sources: Haver and IMF staff calculations.

6. Inflation has receded significantly. Inflation reached -0.7 percent y-o-y in April, driven primarily by lower global and domestic prices of key food items, Dram appreciation, and tight financial conditions. The CBA began an easing cycle in June 2023, cutting rates by a cumulative 250 basis points to 8.25 percent in April 2024, citing abating external commodity price pressures, lower economic activity in main trading partners, and slower wage growth.



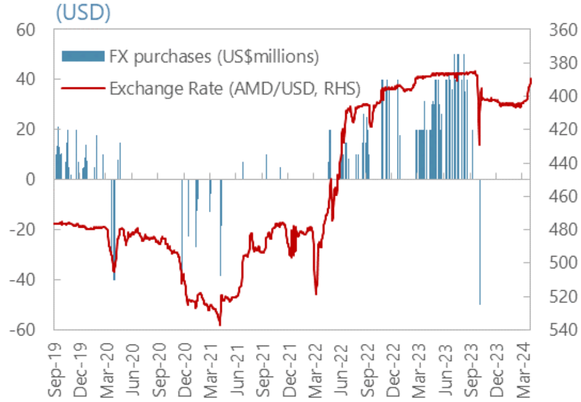
Source: Haver.



Sources: Haver and IMF staff calculations.

7. The current account deficit was limited to 2.1 percent of GDP in 2023, and external flows continue normalizing. The trade deficit widened to 10.1 percent of GDP in 2023 amid strong domestic demand and decelerating export growth (Figure 2) but was largely offset by strong tourism, with the services surplus reaching 9.4 percent of GDP. The financial account has continued to normalize to historical trends. FDI declined by about 2½ percent of GDP and commercial bank inflows by 4 ½ percent of GDP. Notwithstanding net US dollar purchases of close to US$1.2 billion, higher import content of government capital spending, under-execution of external financing in 2023Q4, and reallocation of banks' excess reserves into higher yielding foreign liquid assets resulted in gross international reserves declining somewhat to US$3.6 bn (116 percent of the ARA metric) by end-2023.[2]

FX Intervention and Exchange Rate
(USD)



Sources: Haver and national authorities.

8. The 2023 fiscal deficit of 2.0 percent of GDP was lower than anticipated, driven by expenditure under-execution. Tax revenue increased to 22.4 percent of GDP (Figure 4), thanks to buoyant income taxes, including on the back of large banking sector profits. Slow execution of foreign financed projects resulted in under-spending of 1.1 percent of GDP. Central government debt at 48.1 percent of GDP, was in line with projections and remains sustainable.

9. The financial system has healthy buffers. At around 20 percent, the banks' capital adequacy ratio (CAR) has been well above the current minimum requirement (Figure 5, Table 5). Liquidity remains ample, while NPLs are low and stable at 2.4 percent as of end-2023. Return on equity and on assets are still high by historical standards, reaching respectively 17.4 percent and 2.7 percent in December, due to foreign exchange gains and higher interest income. Commercial banks' holdings of government bonds reached 20 percent of net domestic assets following the rise of government yields. Loan growth of about 20 percent y-o-y in December has been driven by construction sector, consumer, and mortgage loans.

C. Outlook and Risks

10. Growth is projected to decelerate but to remain robust. Buoyant domestic demand and a supportive fiscal stance will support growth in 2024, which is expected to reach 6 percent with an estimated output gap of 1.5 percent. A gradual slowdown of goods' exports and tourism and a decline in financial inflows from Russia are expected to slow growth in 2025–26 and help close the output gap by 2026.

[2] Net international reserves have nonetheless increased by US$200 million to US$1.9 billion following a decline in banks' excess FX reserves that were invested in higher yielding assets.

11. Inflation is expected to revert to the CBA's target. Strong domestic demand and above-potential growth are projected to exert inflationary pressures on non-tradables, bringing the 2024 average inflation to 2.2 percent. Staff projects that inflation will reach 3.3 percent by end-2024, slightly below the 4 percent CBA target, but food and commodity price volatility might pose challenges to the outlook.

12. The current account deficit is projected to widen toward its norm. The deceleration in external demand, slowing remittances inflows, and buoyant domestic demand—including due to a larger fiscal deficit—are expected to increase the current account deficit to 2.5 percent of GDP in 2024. Normalization of tourism receipts and higher capital spending are projected to further widen the current account deficit toward 5 percent in the medium term. Projected rising external government financing is expected to be driven by higher import content of government spending.

13. A challenging and uncertain environment poses sizeable risks to the outlook. Regional geopolitical tensions and related instability could lead to FX volatility. This could be exacerbated if the slowdown in major trading partners, including Russia, is larger than expected, or if tight global financial conditions last longer (Annex I). A resurgence in global food and energy prices, could lead to a stronger pickup in inflation, especially if accompanied by a currency depreciation. On the upside, continued strong exports, implementation of structural reforms could support higher growth in the medium term.

14. Armenia may need additional financing in the event of an adverse shock. An illustrative negative scenario, comprising a decline in trading partners' growth and rising commodity prices could potentially widen the current account deficit, cause a capital flow reversal, and put significant pressures on reserves. While the exchange rate remains the main shock absorber, Armenia may need to tighten macro policies and/or access additional financing, including financial support from the Fund or other multilateral creditors (Annex II). The authorities' commitment to prudent policies will help preserve fiscal and external sustainability.

Text Table. Armenia: Impact of a Plausible External Shock

	2024		2025		2026	
	Baseline	Adverse Scenario	Baseline	Adverse Scenario	Baseline	Adverse Scenario
National Income and Prices						
Real GDP (percent change)	6.0	2.5	5.3	3.0	4.5	4.5
CPI (Period average; percent change)	2.2	5.1	3.8	6.0	4.0	4.0
Overall Balance on a cash basis (in percent of GDP)	-4.6	-6.4	-4.6	-5.2	-4.3	-4.2
Central Government PPG Debt (in percent)	49.9	60.9	50.8	58.8	51.5	54.8
Current Account Balance (in percent of GDP)	-2.5	-4.1	-4.9	-5.7	-4.9	-5.0
Gross international Reserves (in millions of U.S. dollars)	3748	2648	3486	2126	3458	2548

Sources: National authorities, and IMF staff calculations and projections.

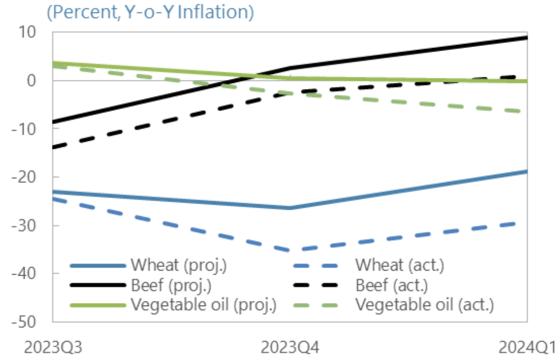
D. Program Performance

15. The program is broadly on track (MEFP, Tables 1 and 2a):

- *All end-December 2023 quantitative performance criteria (QPC) and indicative targets (IT) were met*. Despite a shortfall in external financing of US$204 million relative to projections, the NIR target was comfortably met after applying the adjusters for budget support and project loans. The QPC for the program fiscal balance was also comfortably met after adjusting for the one-off absorption of non-performing bank assets (MEFP, Table 1). Acceleration of government capital spending likely resulted in the March 2024 NIR IT being missed, taking account of the impact of program adjusters, while overall spending compression kept the program fiscal balance significantly above the March 2024 fiscal balance IT.

- *The end-December 2023 headline inflation rate of –0.6 percent breached the lower-outer band of the Monetary Policy Consultation Clause*. This triggers a consultation with the Executive Board (Attachment III). As the authorities note in their letter, lower inflation was mainly due to lower than anticipated food prices, which account for 45 percent of the CPI basket. With inflation declining to -1.2 percent in March 2024, the same factors resulted in a breach of the lower-outer band of the March MPCC IT.

Global Food Inflation: October 2023 Forecast and Actual
(Percent, Y-o-Y Inflation)



Sources: World Economic Outlook and IMF staff calculations.

- *Good progress was made on the implementation of structural benchmarks (SB), albeit some with delays* (MEFP, Table 2a). The authorities published the terms of reference for the design and implementation of the Government Financial Management Information System (December 2023 SB). The notes describing the functional review of the Ministry of Finance and defining state ownership (both March 2024 SBs) were completed and circulated with some delay. The CBA completed a macro-financial stress test to assess the resilience of the banking system (December 2023 SB). It also adopted an enhanced communication strategy on monetary policy (March 2024 SB). The Ministry of Justice submitted to Cabinet a concept paper to upgrade the insolvency legislation (January 2024 SB). The Ministry of Economy finalized a revised draft of the corporate governance code and is awaiting parliamentary approval of legal amendments to authorize its adoption (December 2023 SB), which is expected by July 2024. The completion of the national export strategy was delayed, as further work is needed to identify specific policies to address obstacles identified during the diagnostic phase (March 2024 SB, proposed to be rescheduled to September 2024).

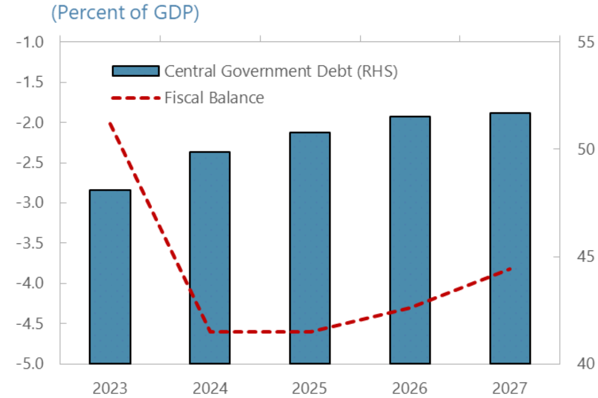
POLICY DISCUSSIONS

Discussions focused on the outlook and risks, the appropriate macroeconomic policy mix, and the implementation of program commitments.

A. Building Fiscal Space and Institutional Capacity to Support Sustainable Growth

16. The 2024 budget deficit target of 4.6 percent of GDP remains appropriate and achievable. It accommodates about 1.5 percent of GDP in high priority spending for emergency social protection, infrastructure—including road, housing, and school construction—and national security. The fiscal position appropriately balances these spending priorities with preserving a moderate debt level and adequate market access. In view of the positive output gap and inflation resurgence risks, any potential revenue overperformance should be saved.

Fiscal Balances and Central Government Debt
(Percent of GDP)



Sources: National authorities and IMF staff calculations.

17. The authorities committed to a gradual medium-term fiscal consolidation to preserve fiscal sustainability. The draft 2025–27 Medium-Term Expenditure Framework (MTEF), which will be adopted in June, is expected to hold the deficit at its current level in 2025, followed by a cumulative deficit reduction of 0.8 percent of GDP in 2026–27. This fiscal path is expected to guard public debt against growth and exchange rate risks, and keep gross financing needs manageable. If additional IFI foreign financing for high-quality investment projects becomes available, the 2025 fiscal deficit could accommodate up to 0.9 percent of GDP, which would require a larger subsequent deficit reduction, including through greater curtailment of current spending in line with Armenia's fiscal rules.[3]

18. The 2025–27 MTEF should reflect a well-prioritized spending plan in support of Armenia's pressing economic and social needs. Integration of ethnic Armenian refugees, national security, and long-standing infrastructure and healthcare upgrades are creating spending pressures. In particular:

- *Integration of ethnic Armenians*. Staff and authorities' preliminary estimates of the annual integration costs amount to 1.2 percent of GDP (USD 2,880 per person) for the next 4–5 years,

[3] If government debt in the year T-1 is between 50 – 60 percent of GDP, the current primary expenditures in the year T+1 must not exceed the average nominal GDP growth in previous 7 years. If debt in the year T-1 is greater than 60 percent of GDP, the current expenditures in the year T+1 must not exceed tax revenues and current primary expenditure must not exceed the average nominal GDP growth in the previous 7 years minus 0.5 percentage points.

including investment in permanent affordable housing and spending on employment, education, and social protection. These costs are expected to be fully accommodated within the MTEF.

- *Investment*. The authorities would like to raise public investment by about 3.5 percentage points of GDP by 2027. This includes investment to shore up national security as well as higher foreign-financed capital spending. Given public investment management (PIM) bottlenecks affecting execution of capital projects, about 2.5 percentage points of GDP is likely to be implemented, while further scaling up should be supported by adequate PIM reforms and foreign project financing.

- *Other social spending*. The authorities intend to introduce a Universal Health Insurance (UHI) by 2027. As details of the reform—benefit package, premiums, copayments, and private health insurance markets—are still being finalized, spending should be phased-in with commensurate UHI funding policies. The upcoming employment strategy (annual cost gradually increasing up to 1.6 percent of GDP in 2030) and the authorities' plan to raise the social safety net coverage and align social pensions with the minimum CPI basket by 2026 would require further revenue mobilization.

19. Progress with structural fiscal reforms will support a credible medium-term fiscal path and address longstanding bottlenecks in public administration effectiveness.

- *Mobilizing revenues.* Already approved excise and environmental tax rate increases, higher turnover tax rates (totaling 0.3 percent of GDP), and other tax policies to be legislated by end-year are projected to increase total revenues by at least ¾ percent of GDP by 2026. Further tax policy options, identified by IMF TA, include rationalizing VAT exemptions, improving capital and corporate income tax neutrality, and introducing carbon taxes, while sector-specific tax incentives should be avoided to prevent tax base erosion. Continued revenue administration reforms, including those to be identified through a Tax Administration Diagnostic Assessment Tool will bolster revenue mobilization. The State Revenue Committee's (SRC) access to third-party information, combined with powers to conduct individual tax liability reassessments using indirect audit methods, will support the effective implementation of the recently rolled out universal PIT declarations.

- *Enhancing the fiscal framework*. With plans to introduce multi-year budgeting and improve baseline costing, the authorities have committed to a broader review of the Medium-Term Expenditure Framework to identify gaps and weaknesses that hinder its effective implementation and measures to strengthen medium-term fiscal planning (***June 2025 SB***). Subsequent reforms of the legislation and processes will aim to enhance the strategic value and accountability of fiscal planning by providing more time for policy deliberations, increasing budget flexibility, and ensuring smoother implementation of capital spending.

- *Upgrading PIM.* The authorities' plans to transfer the PIM institutional management from the Ministry of Economy to the Ministry of Finance (MoF)—in line with MoF's broader functional reforms—will enable closer integration of project selection and execution with the budget cycle and improve implementation capacity. These institutional changes and planned regulatory amendments (proposed to be modified and rescheduled to ***September 2024 SB***) are expected to improve the efficiency of capital investment and reduce systematic project under-execution.

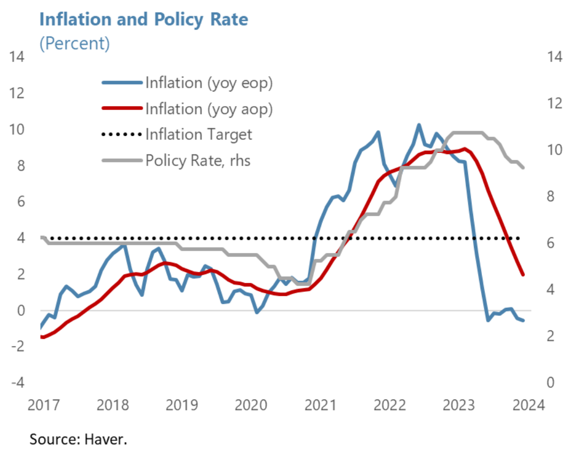
- *Mitigating fiscal risks*. The approval of a concept note defining the rationale for owning SOEs and the government's role in their oversight is a positive step towards the adoption of a state ownership policy (***June 2025 SB***). In this context, the authorities are considering to dissolving the Armenia National Interests Fund (ANIF) and exiting from its investments. Staff supports this, given the fiscal risks involved in ANIF's operations, however, if this proves infeasible, ANIF's governance and accountability should be strengthened in line with the current ANIF decree. In addition, divesting from recently acquired minority stakes in commercial enterprises is critical to ensure coherence of state ownership and reassure investors of impartial government treatment of the private sector. Finally, introducing an effective cap on all PPP-related contingent liabilities will contain fiscal risks that may materialize from the ongoing reassessment of legacy PPPs and the renegotiation of existing contracts (such as the Zvartnots airport concession).

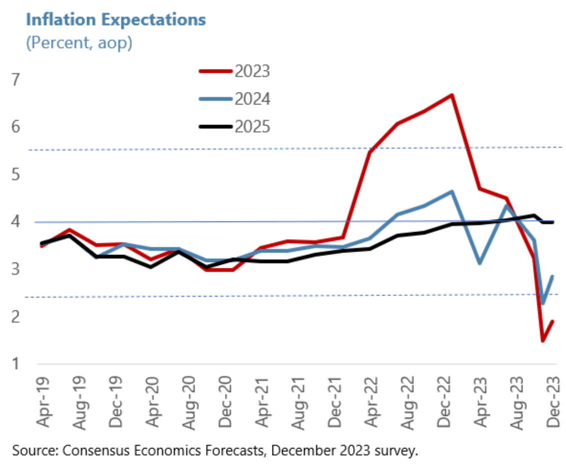
- *Modernizing public administration and statistical reporting*. While the MoF's recent functional review is a welcome step toward upgrading its effectiveness, new legislative changes are needed to complete the reform, and enhancing its institutional resilience and functional coordination. The improvement of fiscal reporting hinges on (i) completing the recently tendered Government Financial Management Information System (GFMIS) to ensure adequate central government wage bill data; and (ii) accelerating the adoption of GFSM 2014, especially the sectorization of public sector units and use of general government unit data beyond the MoF.

B. Calibrating the Monetary Policy Stance and Ensuring Financial Sector Resilience

20. The CBA's gradual policy easing has been appropriate in view of the low inflation environment. After cumulative rate cuts of 250 bps since June 2023, the policy rate has edged closer to the estimated neutral rate but is still relatively high in real terms (Figure 4). Looking ahead, while inflation expectations remain anchored, upside risks to inflation arise from still high wage growth, strong credit expansion, and robust domestic demand. Against this backdrop, monetary policy should remain data driven, guided by the outlook for domestic demand, the evolution of services inflation, and the behavior of inflation expectations. To the extent that inflation dynamics remain well below target, the CBA has some room to continue its gradual easing. Were inflation to surprise to the upside, the CBA should pause its easing cycle. FX interventions through sales should remain confined to addressing disorderly market conditions while purchases should seek opportunities to bolster FX reserves when conditions are favorable.

21. Further improvements of the monetary policy framework and CBA's governance will enhance its credibility. The CBA moved to a risk-based approach to monetary policy and revamped the presentation and focus of its monetary policy report. A newly adopted monetary policy

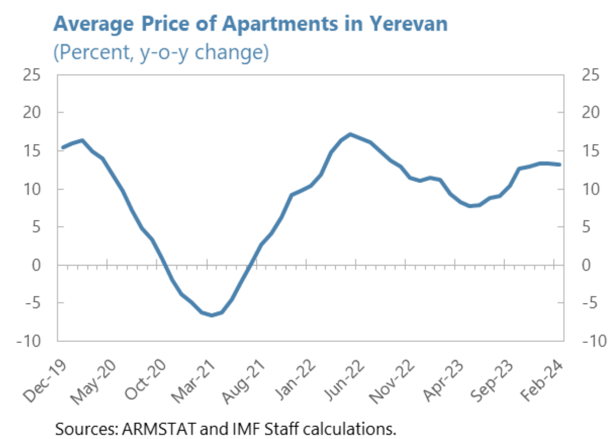




communication strategy outlines steps to improve clarity, transparency, and accountability of the policymaking process. Further efforts in developing capital markets would strengthen the transmission mechanism of policy rates, reduce dollarization, and support investment.

22. The CBA remains committed to monitoring closely financial sector risks.

- **Housing market.** Despite levelling off over the past few months, housing prices remain overvalued by about 20–35 percent. The CBA's recent macro-financial stress test showed that a severe adverse scenario for the housing market could reduce the aggregate CAR to 16.8 percent, close to the overall capital requirements of 16.5 percent for systemic banks and 15 percent for non-systemic banks. While almost all banks have enough capital to withstand the adverse shock,[4] a further increase in the countercyclical capital buffer[5]—to lock in existing buffers—would be warranted if housing market risks grow unabated. Furthermore, increasing risk weights on construction loans would protect banks given their large exposures to the sector which reached10 percent of total loans at end-2023.



- **Other financial stability risks.** Risks from FX mismatches appear low, as FX-denominated loans have declined—with FX mortgages now prohibited—and net FX positions remain small, positive, and relatively stable. Non-resident deposit inflows are invested in liquid assets abroad (Table 5),

[4] Under the adverse scenario, one bank would have a CAR below the Pillar 1 minimum of less than 40 bps.

[5] The CBA increased the CCyB to 1.5 percent as of August 2023.

and banks' large LCR ratios and ample FX liquidity mitigate the risk of a potential deposit reversal.

23. Reform efforts to upgrade the supervisory framework and toolkit are advancing.

- **Bank resolution law.** Significant progress has been made in preparing the law, which specifies an orderly resolution framework and measures to minimize the potential adverse impact of a failing institution on the banking and financial sectors. The law addresses resolution financing and the functions of the resolution fund and the deposit guarantee fund. It establishes the terms and conditions for using resolution tools, defines the role of the CBA, and assigns ultimate responsibility for resolution funding to the government. The effectiveness of the resolution framework also hinges critically on the implementation of an early intervention framework. To this end, the authorities have committed to amending the CBA Law and, if necessary, other laws (***September 2025 SB***) to ensure early intervention powers are in place.

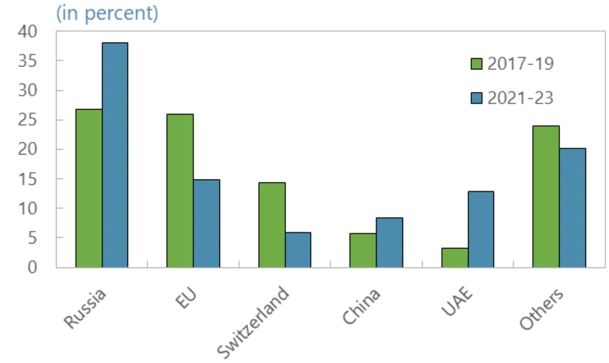
- **Pillar 2 capital buffers.** In July 2023, the CBA communicated to banks supervisory expectations regarding the bank's internal capital adequacy assessment processes (ICAAP), stating minimum content and risk assessment expectations, including on stress testing. The ICAAP is performed annually by banks, and the enhanced reports were expected by the end of March 2024. With targeted IMF technical assistance support, the CBA is preparing an impact study on interest rate risk in the banking book, expected to be finalized by end-2024. The implementation of the Supervisory Review and Evaluation Process (SREP) is progressing, with pilot evaluations completed for the four biggest banks in 2023, while evaluations for all banks are planned by end-2024.

C. Boosting Potential Output and Promoting Inclusive Growth

24. The authorities reaffirmed their commitment to completing critical structural reforms:

- **Export strategy.** An extensive technical diagnostic work to define a new export strategy has identified several obstacles to trade diversification including logistics, fragmented institutional framework for export promotion, burdensome regulations, and lack of compliance with international standards. Overcoming these obstacles entails, among others, improving the business environment, infrastructure and logistics, quality of products and services, diversification of export destinations, and SMEs' access to finance. Further work is needed to identify specific policies and tools to address these bottlenecks, harness Armenia's comparative advantages, and clearly define the roles of the private and public sectors before adopting the export strategy (proposed to be rescheduled to **September 2024 SB**).

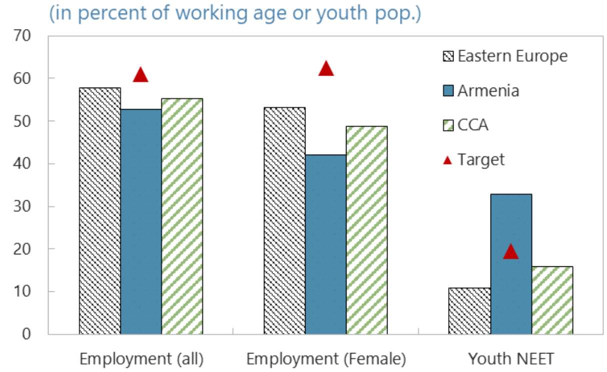
Armenia's Export by Destinations
(in percent)



Sources: National authorities and IMF staff calculations.

- **Labor market.** The authorities have drafted an employment strategy to boost labor force participation, productivity, and incomes through supply- and demand-side measures, including skills and infrastructure development, targeted programs for the youth, women, and vulnerable groups, revitalization of industrial zones, and tax exemptions. Proposed profit and income tax incentives should be avoided because they erode tax bases and are unlikely to be effective. The Ministry of Labor and Social Affairs is working closely with the MoF to cost the strategy by ensuring that assumptions about specific proposed policies and outcomes are realistic. The final strategy also seeks to improve the availability of high-frequency labor market data for closely monitoring market conditions and outcomes, and should enhance compliance with international labor standards, including safe working conditions.

Employment Outcomes: Current Status and Target
(in percent of working age or youth pop.)



Sources: Authorities, ILO, and staff calculations.
Note: Youth NEET refers to the youth that are not in employment, education or training.

- **Access to finance.** Based on the recently adopted concept paper on the review of the insolvency legislation, the authorities will submit to parliament legislation for improving the effectiveness of insolvency proceedings and the protection of creditor rights (***October 2025 SB***). The newly revised corporate governance code contains comprehensive guidelines to enhance transparency and accountability of both private companies and SOEs. However, its adoption is still pending legislation that authorizes the MoE to issue the code. Further implementation and monitoring of the code will require capacity building at the MoE and specific regulators (e.g., stock exchange), and potentially legislative changes, to ensure targeted compliance by listed companies, SOEs, and other companies with large footprint in the economy.

- **Governance.** The authorities should continue to strengthen the anti-corruption framework, including by advancing anti-corruption investigative capacities, procurement reform, and information sharing between the asset declaration and the beneficial ownership registries.

PROGRAM MODALITIES

25. Staff proposes to update program targets. The MPCC path is proposed to be reset in line with staff's baseline projections, reflecting the new assumptions for global food and commodity prices, with symmetric inner and outer bands of the MPCC adjusted accordingly (MEFP Table 1). Staff proposes to revise downward the end-June 2024 NIR QPC to reflect lower actual and projected disbursements of external program and project financing, as well as a lower NIR base as of December 2023, and to set QPCs for end-December 2024.

26. Staff also proposes revisions to the structural conditionality. The March 2024 SB on adopting an export strategy is proposed to be rescheduled to September 2024 to allow the MoE to identify specific policies addressing export bottlenecks. The June 2024 SB for empowering the SRC to audit individuals is proposed to be modified to require submission of the legislation to parliament. The June 2024 SB for the unification of the definition of public investment is proposed to be modified and rescheduled to September 2024 to allow further government deliberation, especially in view of the ongoing institutional changes in the PIM function. Newly proposed structural benchmarks seek to finalize the state ownership policy and the insolvency legislation, as well as to improve medium-term fiscal planning and the CBA's early intervention capacity (MEFP Table 2b).

27. The program is fully financed under the baseline and Armenia's capacity to repay the Fund is adequate. Firm commitments for the next 12 months are in place, the BoP financing gap for the next 12 months of the arrangement is closed, and there are good prospects that there will be adequate financing for the remainder of the program as well. Armenia's capacity to repay the Fund is supported by the authorities' proven ability to follow through on their reform program, long track-record of sound macroeconomic management, and commitment to moderate public debt levels. IMF payment obligation ratios are projected to be at most 6.7 percent of gross reserves and 1.6 percent of exports while projections for the ratios of Fund credit to reserves and exports both peak in 2024 at 11.2 percent and 2.7 percent respectively.

28. The CBA is working to address the recommendations of the safeguards assessment. The 2023 update assessment found that the CBA maintained strong controls over central banking operations and its audit mechanisms and financial reporting practices are mostly aligned with international standards. However, aspects of governance arrangements and the legal framework need strengthening, and enterprise risk management should be established. With support from IMF TA, the CBA is considering options for developing an enterprise risk management framework and reforming its governance, including its decision-making and oversight structures. The envisaged governance reforms should underpin legal amendments to the CBA Law. To progress on remaining key recommendations, the CBA should also advance its exit from its two mortgage-refinancing subsidiaries, in line with its 2021 exit strategy, and review its role in indirect channeling of development lending to the banking sector. Finally, recently proposed legislation to expand the mandate of the Public Audit Chamber (PAC) should explicitly exclude the possibility that the PAC: (i) question or assess CBA's policy decisions, as this would impair CBA's autonomy; and (ii) audit CBA's annual financial statements due to the need for significant technical expertise and further safeguards to be in place.

STAFF APPRAISAL

29. Amid a highly uncertain outlook, the authorities have sustained strong policy and reform implementation, preserving macroeconomic stability. The program is on track and the authorities remain committed to the program objectives. The economic outlook remains positive, with robust albeit decelerating growth. Risks to the outlook however are elevated, stemming from geopolitical and regional tensions, potential slowdown in major trading partners, lower trade, and capital outflows. In view of increasing public spending and external financing needs, continued implementation of prudent policies and acceleration of reforms will be critical to safeguard buffers and further strengthen economic resilience.

30. The agreed 2024 budget deficit remains achievable and appropriate. It accommodates urgent social, infrastructure, and security spending needs, while maintaining a moderate debt level. If growth and revenues are stronger than projected, the authorities should build fiscal buffers to help insure against potential future shocks.

31. Gradual medium-term fiscal consolidation is needed to preserve fiscal sustainability. Careful spending prioritization and decisive tax policy and revenue administration efforts will be needed to create fiscal space in the face of rising spending pressures, including for social integration, security spending, further infrastructure development, and a healthcare overhaul. Implementation of reforms to broaden the tax base, improve government spending efficiency, enhance fiscal risk management, and ensure higher-quality public investment remains critical to support the fiscal effort.

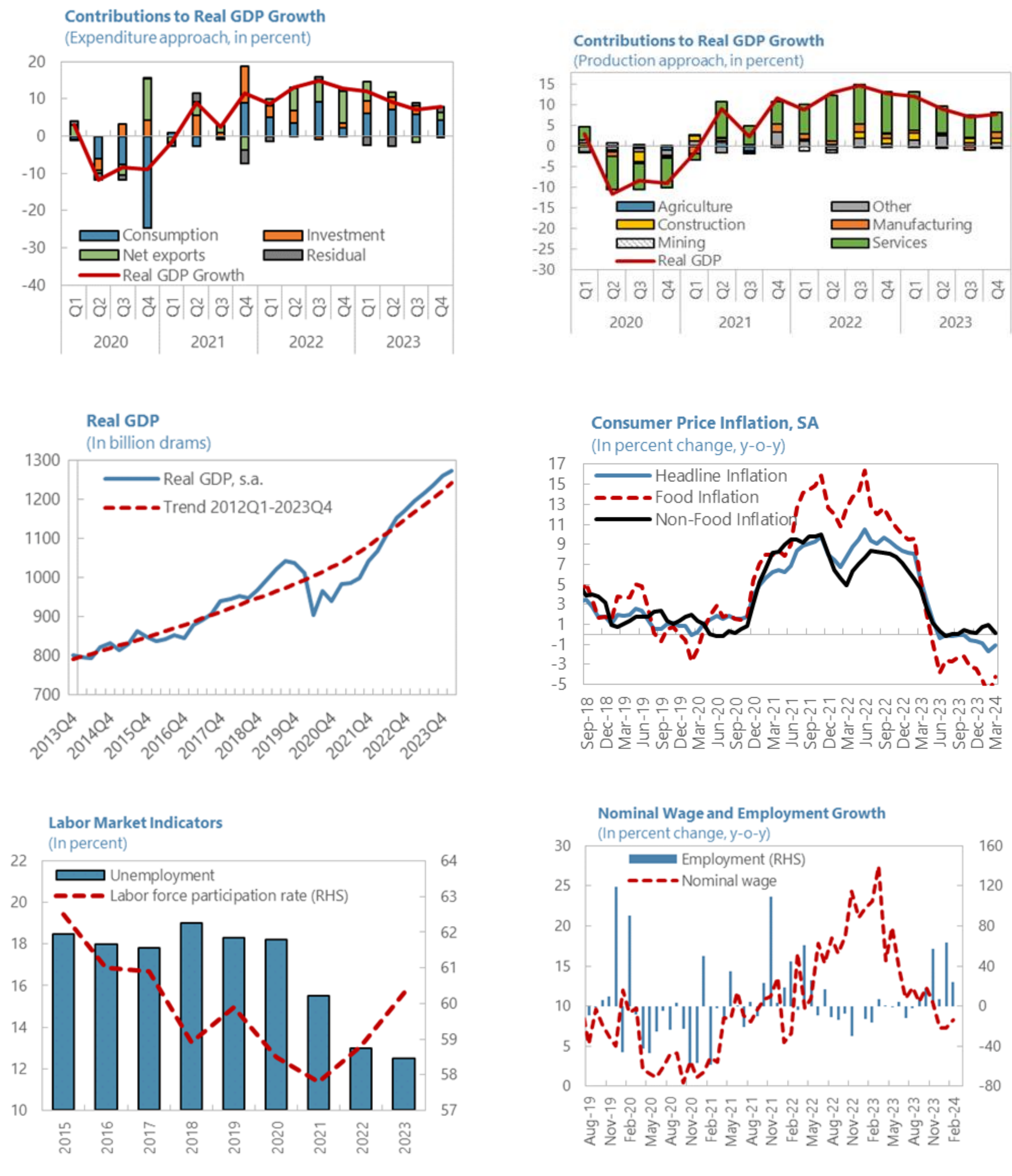
32. The monetary policy stance is appropriate in the current low inflation environment. The CBA has skillfully managed to bring inflation down, but inflation is likely to remain volatile in the period ahead. Further policy rate decisions should be dependent on the evolution of inflation and inflation expectations. The newly adopted approach to monetary policy decisions underscores the need for better transparency, communication, and governance. The flexible exchange rate should continue to serve as a key shock absorber, with foreign exchange interventions limited to addressing disorderly market conditions and opportunistically building reserves to maintain strong FX buffers.

33. Strengthening the supervisory framework, including AML/CFT supervision, would help stem financial stability risks. While banks have enough capital to cushion a severe housing downturn, the CBA should continue to monitor financial risks carefully and recalibrate macroprudential tools if risks continue to rise. The adoption and implementation of a new bank resolution framework will help enhance crisis management powers.

34. Structural reforms should continue to focus on improving the business environment, fostering productivity, and securing better employment outcomes. Achieving these objectives requires developing stronger trade links and increasing export complexity, fostering access to finance and labor force participation, and completing governance reforms to strengthen the anti-corruption framework.

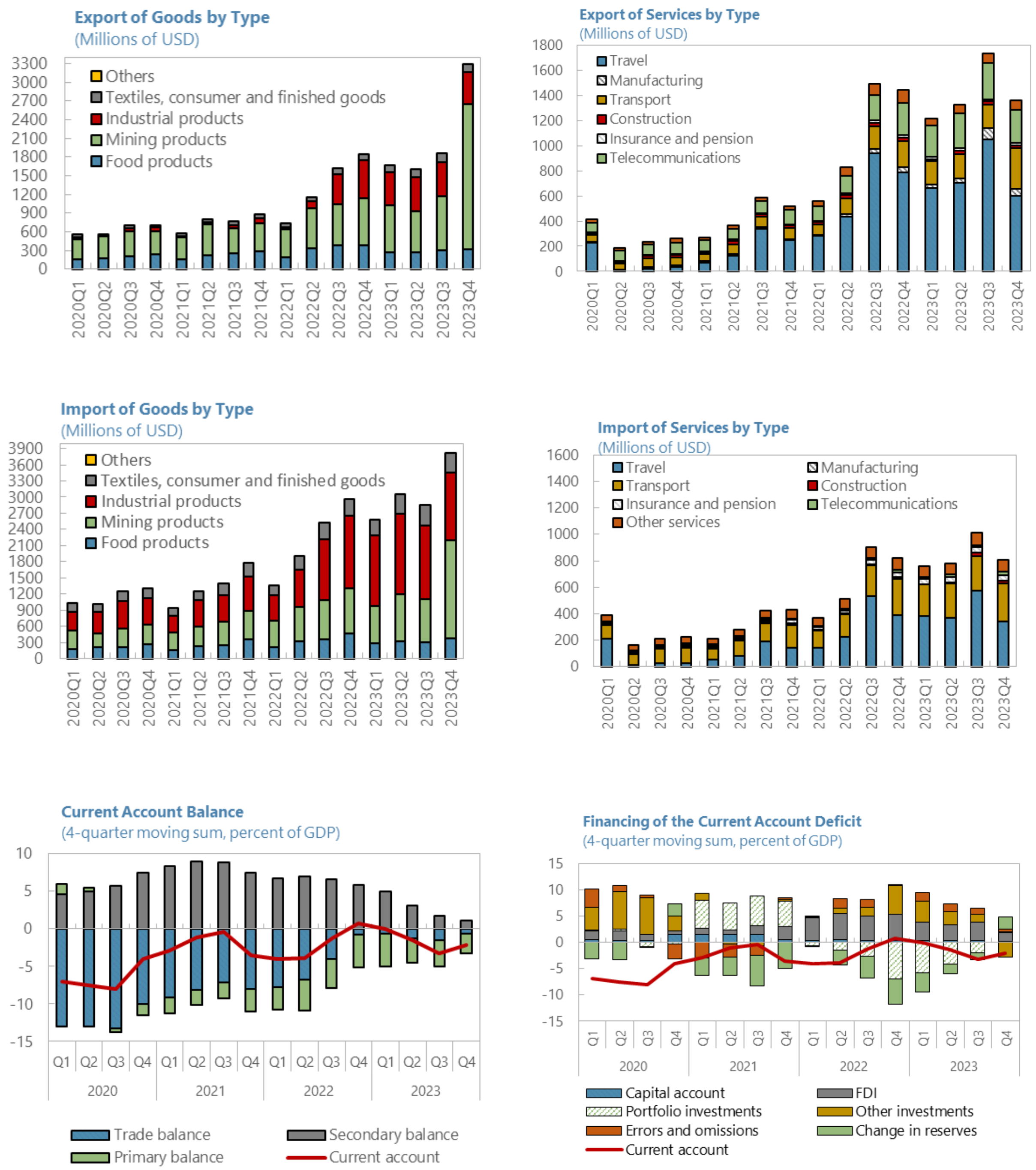
35. Staff supports the authorities' request for completion of the third review and consultation under the MPCC, given their strong performance and program ownership. Staff supports the authorities' request for modifications of QPC, SBs, and MPCC. Upon completion of the review, an additional SDR 18.4 million (about $24.5 million) would be made available to Armenia. The authorities intend to continue treating the arrangement as precautionary.

Figure 1. Armenia: Real Sector Developments



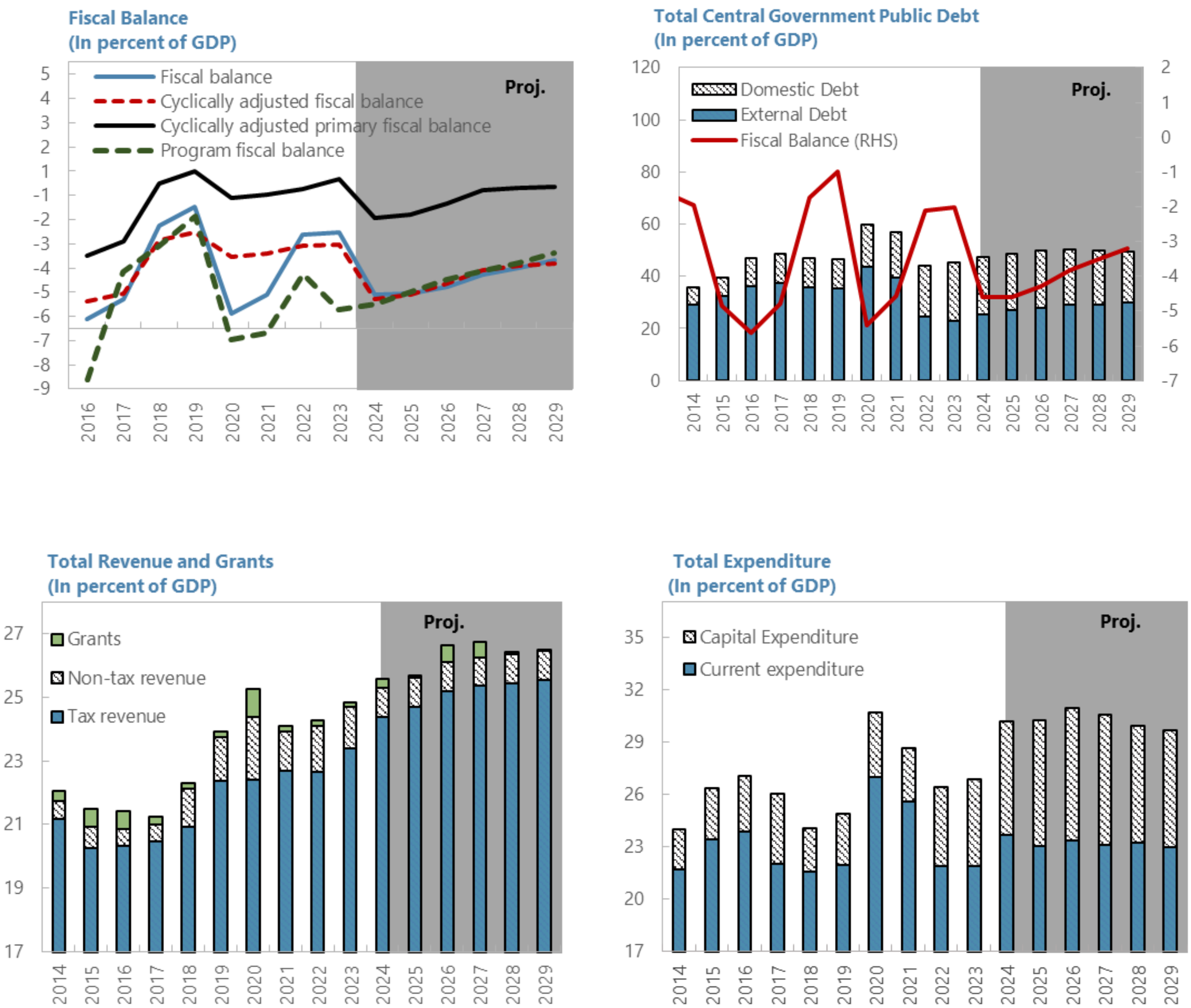
Sources: National authorities, Haver, IMF World Economic Outlook, and IMF staff calculations.

Figure 2. Armenia: External Developments



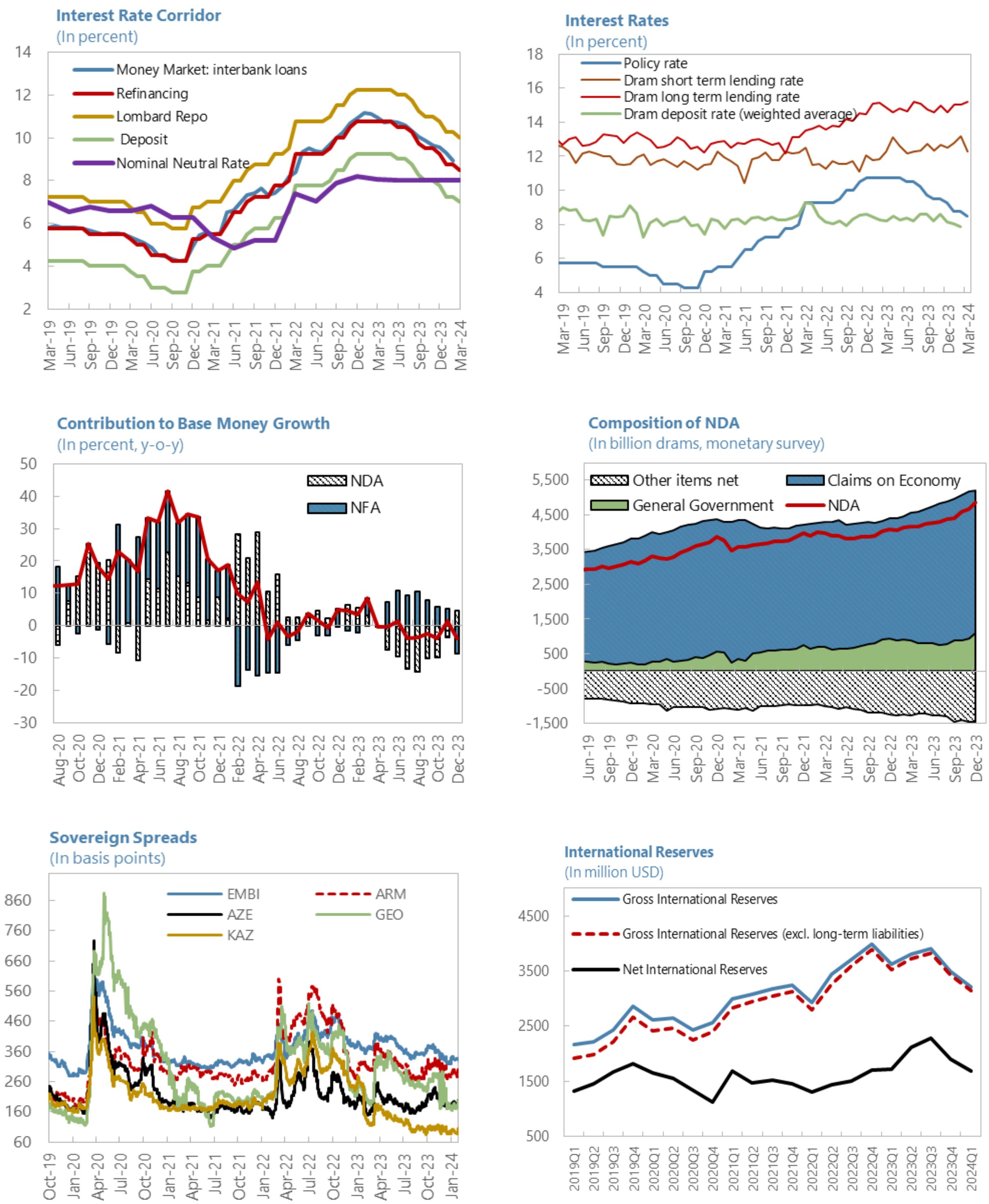
Sources: National authorities, IMF Information Notice Systems Database, and IMF staff calculations.

Figure 3. Armenia: Fiscal Developments



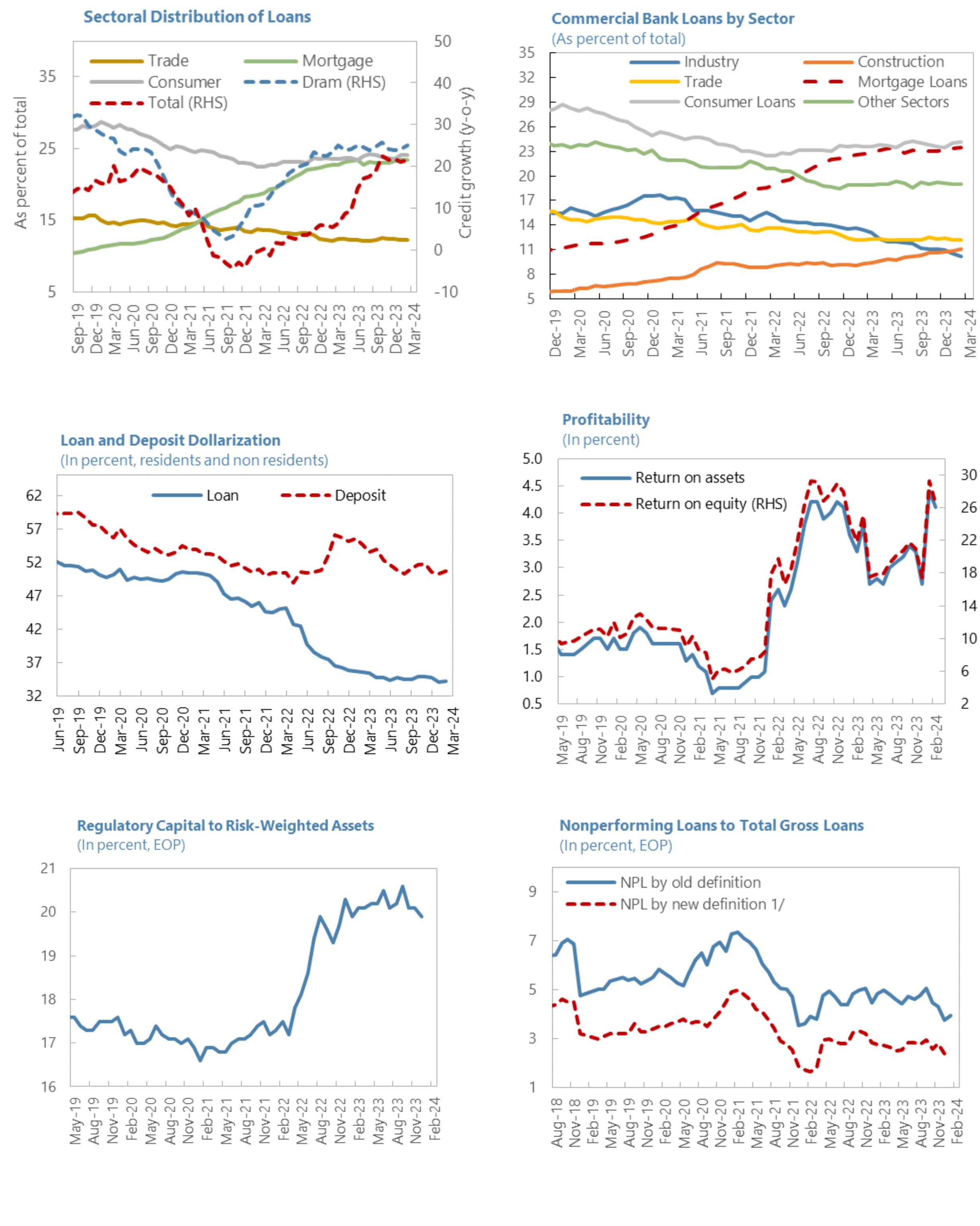
Sources: National authorities, Haver, IMF World Economic Outlook, and IMF staff calculations.

Figure 4. Armenia: Monetary Developments



Sources: Central Bank of Armenia, Bloomberg, JPMorgan EMBIG Diversified Index, and IMF Staff Calculations.

Figure 5. Armenia: Financial Developments



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

Table 1. Armenia: Selected Economic and Financial Indicators, 2021–29

	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Prel.			Proj.			
National income and prices:									
Real GDP (percent change)	5.7	12.6	8.7	6.0	5.3	4.5	4.5	4.5	4.5
Final consumption expenditure, Contrib. to Growth	1.2	4.8	6.6	5.8	3.2	3.1	2.9	2.7	3.0
Gross fixed capital formation, Contrib. to Growth	4.2	1.7	2.2	2.1	2.3	2.0	2.1	2.0	2.0
Changes in inventories, Contrib. to Growth	0.3	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net exports of goods and services, Contrib. to Growth	0.1	6.3	0.2	-1.9	-0.3	-0.6	-0.5	-0.3	-0.5
Gross domestic product (in billions of drams)	6,992	8,501	9,503	10,396	11,381	12,363	13,437	14,605	15,875
Gross domestic product (in millions of U.S. dollars)	13,879	19,514	24,212	25,210	26,938	28,935	31,086	33,397	35,896
Gross domestic product per capita (in U.S. dollars)	4,685	6,572	8,095	8,428	9,005	9,672	10,390	11,162	11,996
CPI (period average; percent change)	7.2	8.6	2.0	2.2	3.8	4.0	4.0	4.0	4.0
CPI (end of period; percent change)	7.7	8.3	-0.6	3.3	4.0	4.0	4.0	4.0	4.0
GDP deflator (percent change)	7.0	8.0	2.8	3.2	4.0	4.0	4.0	4.0	4.0
Unemployment rate (in percent)	15.5	13.5	12.6	13.0	13.5	14.0	14.0	14.0	14.0
Investment and saving (in percent of GDP)									
Investment	23.0	21.6	21.3	20.6	20.4	20.2	20.3	19.9	19.5
National savings	19.5	22.4	19.2	18.0	15.6	15.3	15.3	15.0	14.5
Money and credit (end of period)									
Reserve money (percent change)	17.1	5.0	-4.0	6.2	7.7	7.9	7.9	7.9	7.9
Broad money (percent change)	13.1	16.1	17.4	13.9	8.1	8.7	8.7	8.7	8.7
Private sector credit growth (percent change)	-3.9	4.5	18.5	11.4	9.2	9.7	9.7	9.7	9.7
Central government operations (in percent of GDP)									
Revenue and grants	24.1	24.3	24.8	25.6	25.7	26.6	26.8	26.4	26.5
Of which : tax revenue	22.1	21.9	22.4	23.4	23.7	24.2	24.4	24.5	24.6
Expenditure 1/	28.7	26.4	26.8	30.2	30.3	30.9	30.6	29.9	29.7
Overall balance on a cash basis 1/	-4.6	-2.1	-2.0	-4.6	-4.6	-4.3	-3.8	-3.5	-3.2
Public and publicly-guaranteed (PPG) debt (in percent of GDP)	63.4	49.2	50.5	52.5	53.1	53.3	53.2	53.0	52.1
Central Government's PPG debt (in percent)	60.2	46.7	48.1	49.9	50.8	51.5	51.7	51.4	50.7
Share of foreign currency Central Government PPG debt (in percent)	71.2	62.1	52.7	56.3	57.8	57.8	58.8	60.0	61.3
External sector									
Exports of goods and services (in millions of U.S. dollars)	5,012	10,038	14,131	13,933	12,518	12,493	12,901	13,324	13,897
Imports of goods and services (in millions of U.S. dollars)	-6,120	-10,186	-14,280	-14,678	-13,885	-13,955	-14,528	-15,101	-15,849
Exports of goods and services (percent change)	31.3	100.3	40.8	-1.4	-10.2	-0.2	3.3	3.3	4.3
Imports of goods and services (percent change)	20.4	66.5	40.2	2.8	-5.4	0.5	4.1	3.9	5.0
Current account balance (in percent of GDP)	-3.5	0.8	-2.1	-2.5	-4.9	-4.9	-4.9	-4.9	-5.0
FDI (net, in millions of U.S. dollars)	342	948	389	316	437	454	468	492	516
Gross international reserves (in millions of U.S. dollars)	3,230	4,112	3,602	3,748	3,486	3,458	3,450	3,469	3,665
Import cover 2/	3.8	3.5	2.9	3.2	3.0	2.9	2.7	2.6	2.6
End-of-period exchange rate (dram per U.S. dollar)	480	394	405	…	…	…	…	…	…
Average exchange rate (dram per U.S. dollar)	504	436	392	…	…	…	…	…	…

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

1/ Acquisition of non-financial assets may increase, and the balance may decrease, by an amount of AMD 107.0 billion in 2025, AMD 86.6 billion in 2026, and AMD 95.0 billion in 2027 on account of investment spending in high-quality foreign financed projects above the amount of AMD 67.2 billion.

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

Table 2. Armenia: Balance of Payments, 2021–29

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Act.		Prel.			Proj.			
Current account	-483	151	-510	-642	-1,312	-1,420	-1,531	-1,646	-1,794
Trade balance	-1,505	-1,859	-2,435	-2,466	-3,039	-3,108	-3,258	-3,381	-3,676
Exports	3,277	5,718	8,511	8,728	7,252	6,928	7,024	7,120	7,228
Imports	-4,781	-7,577	-10,946	-11,195	-10,291	-10,036	-10,282	-10,501	-10,904
Services (net)	397	1,711	2,286	1,722	1,672	1,646	1,630	1,604	1,724
Credits	1,735	4,320	5,619	5,205	5,266	5,565	5,876	6,205	6,669
Debits	-1,338	-2,609	-3,334	-3,483	-3,594	-3,920	-4,247	-4,600	-4,945
Income (net)	-406	-849	-645	-434	-449	-498	-514	-524	-529
Transfers (net)	1,031	1,148	284	536	504	541	611	655	687
Private	955	1,219	493	436	440	477	547	591	623
Official	77	-71	-209	100	64	64	64	64	64
Capital and financial account	937	621	-8	959	1,183	1,452	1,524	1,666	1,989
Capital transfers (net)	63	76	22	36	21	156	156	21	21
Foreign direct investment (net)	342	948	389	316	437	454	468	492	516
Portfolio investment (net)	6	-1,356	-229	-80	-80	-80	-80	-80	-80
Public sector borrowing (net)	666	481	-100	1,210	1,110	761	853	859	862
Disbursements	912	741	366	1,506	1,753	1,183	1,183	1,183	1,683
Amortization	-246	-260	-467	-297	-643	-422	-330	-324	-821
Other capital (net)	-140	471	-89	-523	-305	161	127	374	670
Errors and omissions	51	21	86	0	0	0	0	0	0
Overall balance	505	793	-432	317	-129	32	-6	20	196
Financing	-505	-793	432	-317	129	-32	6	-20	-196
Gross international reserves (increase: -)	-614	-882	510	-146	262	28	8	-20	-196
Use of Fund credit, net	-66	89	-78	-171	-133	-60	-2	0	0
Of which: IMF (SBA) budget support	0	72	0	0	0	0	0	0	0
SDR allocation	175	0	0	0	0	0	0	0	0
Financing needs	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account (in percent of GDP)	-3.5	0.8	-2.1	-2.5	-4.9	-4.9	-4.9	-4.9	-5.0
Trade balance (in percent of GDP)	-10.8	-9.5	-10.1	-9.8	-11.3	-10.7	-10.5	-10.1	-10.2
Gross international reserves (end of period)	3,230	4,112	3,602	3,748	3,486	3,458	3,450	3,469	3,665
In months of next year's imports	3.8	3.5	2.9	3.2	3.0	2.9	2.7	2.6	2.6
In percent of IMF's Reserve Adequacy Metric (ARA)	143	154	116	120	111	108	106	103	101
Goods export growth, percent change	20.5	74.5	48.9	2.5	-16.9	-4.5	1.4	1.4	1.5
Goods import growth, percent change	16.6	58.5	44.5	2.3	-8.1	-2.5	2.5	2.1	3.8
Nominal external debt	13,663	15,567	15,984	17,616	19,144	20,343	21,626	22,965	24,327
o.w. public external debt	6,811	6,919	6,869	7,908	8,854	9,518	10,341	11,201	12,063
Nominal external debt stock (in percent of GDP)	98.4	79.8	66.0	69.9	71.1	70.3	69.6	68.8	67.8
External public debt-to-exports ratio (in percent)	135.9	68.9	48.6	56.8	70.7	76.2	80.2	84.1	86.8
External public debt service (in percent of exports)	9.2	4.7	5.8	5.2	8.9	7.0	5.9	5.8	9.5

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

Table 3a. Armenia: Central Government Operations, 2021–29

(In billions of Armenian drams)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Act.					Proj.		
Total revenue and grants	1,683.8	2,063.1	2,359.4	2,658.4	2,922.4	3,293.4	3,594.8	3,857.7	4,208.1
Total revenue	1,671.5	2,048.1	2,345.5	2,629.0	2,913.6	3,226.8	3,527.3	3,848.5	4,198.8
Tax revenues 1/	1,543.9	1,861.5	2,131.6	2,431.4	2,697.3	2,991.9	3,272.0	3,571.0	3,897.2
VAT	556.0	679.6	767.2	842.1	921.9	1,007.6	1,101.9	1,197.6	1,301.7
Profits, simplified and presumptive	158.6	222.8	321.6	353.5	398.3	432.7	470.3	511.2	555.6
Personal income tax	426.3	474.8	554.5	684.8	751.2	822.1	893.6	971.2	1,055.7
Customs duties	84.8	56.7	75.3	83.2	91.0	111.3	134.4	160.7	190.5
Other	318.2	427.6	413.1	467.8	534.9	618.2	671.9	730.3	793.7
Social contributions	43.0	64.5	90.3	104.0	113.8	123.6	134.4	146.1	158.7
Other revenue	84.6	122.2	123.6	93.6	102.4	111.3	120.9	131.4	142.9
Grants	12.4	15.0	13.9	29.4	8.9	66.7	67.4	9.2	9.3
Total expenditure	2,004.3	2,242.6	2,551.0	3,136.4	3,446.0	3,825.0	4,107.6	4,370.9	4,716.7
Expenses	1,788.0	1,862.2	2,077.8	2,469.1	2,627.7	2,907.6	3,136.7	3,431.6	3,708.6
Wages	394.8	419.6	443.2	492.9	530.0	593.4	638.3	701.1	762.0
Payments to individual pension accts.	58.7	54.3	53.3	48.3	34.1	37.1	26.9	26.3	23.8
Subsidies	12.4	19.8	26.1	21.8	22.8	18.5	26.9	29.2	31.7
Interest	180.8	198.3	253.4	347.0	381.1	427.5	476.1	517.8	557.5
Social allowances and pensions	564.3	559.3	657.9	830.1	880.0	952.0	1,034.7	1,127.5	1,214.4
Pensions/social security benefits	317.9	356.6	386.7	446.7	483.7	531.6	577.8	630.9	674.7
Social assistance benefits	246.4	202.7	271.2	383.5	396.4	420.3	456.9	496.6	539.7
Goods and services	131.6	136.0	124.7	157.1	182.1	236.1	248.6	284.8	325.4
Grants	202.9	237.6	279.8	293.2	301.6	321.4	349.4	379.7	396.9
Other expenditure	242.5	237.4	239.4	278.6	295.9	321.4	335.9	365.1	396.9
Transactions in nonfinancial assets	216.3	380.4	473.2	667.3	818.3	917.5	970.9	939.3	1,008.0
Acquisition of nonfinancial assets 2/	218.4	389.3	495.0	682.3	828.3	927.5	980.9	949.3	1,023.9
Disposals of nonfinancial assets	2.1	8.9	21.8	15.0	10.0	10.0	10.0	10.0	15.9
Overall balance (above-the-line) 2/	-320.5	-179.5	-191.6	-478.0	-523.6	-531.6	-512.8	-513.2	-508.6
Statistical discrepancy	0.0	16.0	4.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (below-the-line) 2/	-320.5	-163.5	-187.6	-478.0	-523.6	-531.6	-512.8	-513.2	-508.6
Financing	320.5	163.5	187.6	478.0	523.6	531.6	512.8	513.2	508.6
Domestic financing	101.2	272.1	338.1	59.1	138.5	224.9	154.9	138.7	127.7
Banking system	183.5	85.2	163.1	24.6	86.7	125.6	84.1	72.8	57.1
CBA	-133.6	21.3	-10.1	-28.4	0.0	0.0	0.0	0.0	0.0
Commercial Banks	317.2	64.0	173.3	53.0	86.7	125.6	84.1	72.8	57.1
Nonbanks	-82.3	186.9	175.0	34.6	51.7	99.4	70.8	65.9	70.6
T-Bills/other	-61.0	169.4	171.6	52.4	85.9	124.3	83.3	72.1	56.6
Promissory note/other	-12.7	-11.9	-18.2	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-8.6	29.4	21.6	-17.9	-34.1	-25.0	-12.5	-6.2	14.0
External financing	219.3	-108.6	-150.5	418.9	385.1	306.7	358.0	374.5	380.9
Gross disbursement	466.5	166.6	124.6	596.5	711.1	505.5	511.4	517.3	744.3
of which : IMF budget support	0.0	31.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-115.6	-99.6	-124.5	-169.4	-325.9	-198.7	-153.4	-142.8	-363.4
Net lending	-131.7	-175.6	-150.6	-8.2	0.0	0.0	0.0	0.0	0.0
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)	6,991.8	8,501.4	9,502.8	10,396.4	11,381.1	12,363.1	13,437.5	14,605.2	15,874.5
Program balance 2/,3/	-432.5	-320.7	-537.1	-509.2	-557.7	-556.6	-525.3	-519.5	-494.6
Primary balance 2/,4/	-279.9	-127.4	-67.3	-157.1	-176.6	-129.1	-49.3	-1.7	63.0

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. From 2024, the mortgage interest tax credits are included in the revenues as Personal Income Tax.

2/ Acquisition of non-financial assets may increase, and the balance may decrease, by an amount of AMD 107.0 billion in 2025, AMD 86.6 billion in 2026, and AMD 95.0 billion in 2027 on account of investment spending in high-quality foreign financed projects above the amount of AMD 67.2 billion.

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, 2021–29

(In percent of GDP, unless otherwise specified)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Act.				Proj.			
Total revenue and grants	24.1	24.3	24.8	25.6	25.7	26.6	26.8	26.4	26.5
Total revenue	23.9	24.1	24.7	25.3	25.6	26.1	26.3	26.4	26.5
Tax revenues 1/	22.1	21.9	22.4	23.4	23.7	24.2	24.4	24.5	24.6
VAT	8.0	8.0	8.1	8.1	8.1	8.1	8.2	8.2	8.2
Profits, simplified and presumptive	2.3	2.6	3.4	3.4	3.5	3.5	3.5	3.5	3.5
Personal income tax	6.1	5.6	5.8	6.6	6.6	6.7	6.7	6.7	6.7
Customs duties	1.2	0.7	0.8	0.8	0.8	0.9	1.0	1.1	1.2
Other	4.6	5.0	4.3	4.5	4.7	5.0	5.0	5.0	5.0
Social contributions	0.6	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other revenue	1.2	1.4	1.3	0.9	0.9	0.9	0.9	0.9	0.9
Grants	0.2	0.2	0.1	0.3	0.1	0.5	0.5	0.1	0.1
Total expenditure	28.7	26.4	26.8	30.2	30.3	30.9	30.6	29.9	29.7
Expense	25.6	21.9	21.9	23.7	23.1	23.5	23.3	23.5	23.4
Wages	5.6	4.9	4.7	4.7	4.7	4.8	4.8	4.8	4.8
Payments to individual pension accts.	0.8	0.6	0.6	0.5	0.3	0.3	0.2	0.2	0.2
Subsidies	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Interest	2.6	2.3	2.7	3.3	3.3	3.5	3.5	3.5	3.5
Social allowances and pensions	8.1	6.6	6.9	8.0	7.7	7.7	7.7	7.7	7.7
Pensions/social security benefits	4.5	4.2	4.1	4.3	4.3	4.3	4.3	4.3	4.3
Social assistance benefits	3.5	2.4	2.9	3.7	3.5	3.4	3.4	3.4	3.4
Goods and services	1.9	1.6	1.3	1.5	1.6	1.9	1.9	2.0	2.1
Grants	2.9	2.8	2.9	2.8	2.7	2.6	2.6	2.6	2.5
Other expenditure	3.5	2.8	2.5	2.7	2.6	2.6	2.5	2.5	2.5
Transactions in nonfinancial assets	3.1	4.5	5.0	6.4	7.2	7.4	7.2	6.4	6.3
Acquisition of nonfinancial assets 2/	3.1	4.6	5.2	6.6	7.3	7.5	7.3	6.5	6.4
Disposals of nonfinancial assets	0.0	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Overall balance (above-the-line) 2/	-4.6	-2.1	-2.0	-4.6	-4.6	-4.3	-3.8	-3.5	-3.2
Statistical discrepancy	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (below-the-line) 2/	-4.6	-1.9	-2.0	-4.6	-4.6	-4.3	-3.8	-3.5	-3.2
Financing	4.6	1.9	2.0	4.6	4.6	4.3	3.8	3.5	3.2
Domestic financing	1.4	3.2	3.6	0.6	1.2	1.8	1.2	0.9	0.8
Banking system	2.6	1.0	1.7	0.2	0.8	1.0	0.6	0.5	0.4
CBA	-1.9	0.3	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0
Commercial Banks	4.5	0.8	1.8	0.5	0.8	1.0	0.6	0.5	0.4
Nonbanks	-1.2	2.2	1.8	0.3	0.5	0.8	0.5	0.5	0.4
T-Bills/other	-0.9	2.0	1.8	0.5	0.8	1.0	0.6	0.5	0.4
Promissory note/other	-0.2	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-0.1	0.3	0.2	-0.2	-0.3	-0.2	-0.1	0.0	0.1
External financing	3.1	-1.3	-1.6	4.0	3.4	2.5	2.7	2.6	2.4
Gross disbursement	6.7	2.0	1.3	5.7	6.2	4.1	3.8	3.5	4.7
Amortization due	-1.7	-1.2	-1.3	-1.6	-2.9	-1.6	-1.1	-1.0	-2.3
Net lending	-1.9	-2.1	-1.6	-0.1	0.0	0.0	0.0	0.0	0.0
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)	6,992	8,501	9,503	10,396	11,381	12,363	13,437	14,605	15,875
Program balance 2/,3/	-6.2	-3.8	-5.7	-4.9	-4.9	-4.5	-3.9	-3.6	-3.1
Primary balance 2/,4/	-4.0	-1.5	-0.7	-1.5	-1.6	-1.0	-0.4	0.0	0.4

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. From 2024, the mortgage interest tax credits are included in the revenues as Personal Income Tax.

2/ Acquisition of non-financial assets may increase, and the balance may decrease by an amount of AMD 107.0 billion in 2025, AMD 86.6 billion in 2026, and AMD 95.0 billion in 2027 on account of investment spending in high-quality foreign financed projects above the amount of AMD 67.2 billion.

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			
			Mar.	Jun.	Sep.	Dec.	Mar	Jun	Sep	Dec
	Act.	Act.	Act.	Act.	Act.	Prelim.	Proj.			
Central Bank of Armenia										
Net foreign assets	1186.6	1287.5	1114.0	1187.3	1312.8	1115.5	1219.9	1046.4	1127.7	1210.2
Net international reserves 1/	694.2	685.7	686.6	842.9	990.4	795.8	887.8	701.8	770.7	840.7
Other	492.3	601.8	427.4	344.4	322.4	319.7	332.1	344.6	357.1	369.5
Net domestic assets	644.2	634.5	631.3	530.4	425.6	730.1	734.4	738.9	743.8	749.0
Claims on general government (net)	-393.8	-372.6	-486.6	-577.1	-560.6	-382.8	-389.9	-397.0	-404.1	-411.2
Of which: central government (net)	-323.6	-308.2	-408.9	-498.4	-491.9	-322.4	-329.5	-336.7	-343.8	-350.9
central government deposits	403.5	381.5	495.5	586.4	570.1	392.1	338.8	345.9	353.1	360.2
Claims on banks	696.4	528.3	611.9	607.4	581.3	663.0	663.0	663.0	663.0	663.0
Other items (net)	341.6	478.9	506.0	500.1	405.0	449.9	461.2	472.9	484.9	497.1
Reserve money	1,830.7	1,922.1	1,745.3	1,717.7	1,738.4	1,845.6	1,954.3	1,785.3	1,871.5	1,959.2
Currency issue	747.2	803.1	745.4	808.4	850.1	911.5	936.5	935.8	988.6	1,037.8
Banks' reserves	1,043.9	1,088.5	967.9	872.1	868.3	886.2	969.8	801.6	834.9	873.5
In drams	408.8	360.7	407.4	396.4	397.5	392.2	463.4	282.6	303.6	329.7
In foreign currency	635.1	727.8	560.5	475.7	470.8	494.0	506.5	518.9	531.4	543.8
Other accounts	39.7	30.5	32.0	37.2	20.0	48.0	48.0	48.0	48.0	48.0
Banking system										
Net foreign assets	-178.0	333.5	322.9	353.7	477.3	333.9	425.8	239.8	308.7	378.8
Net domestic assets	3,980.6	4,081.5	4,174.9	4,279.1	4,394.9	4,848.0	4,898.5	5,080.5	5,312.0	5,521.2
Claims on government (net)	744.0	937.4	890.7	798.7	884.9	1,100.5	1,106.6	1,112.8	1,118.9	1,125.0
Of which: claims on central government (net)	814.2	1,001.8	968.4	877.4	953.6	1,160.8	1,167.0	1,173.1	1,179.2	1,185.4
Claims on rest of the economy	4,208.7	4,397.6	4,559.2	4,742.3	4,971.0	5,212.2	5,243.0	5,406.2	5,617.2	5,806.4
Other items (net)	-972.1	-1,253.5	-1,275.0	-1,261.8	-1,460.9	-1,464.7	-1,451.2	-1,438.5	-1,424.1	-1,410.3
Broad money	3,802.6	4,415.0	4,497.8	4,632.9	4,872.3	5,181.9	5,324.3	5,320.3	5,620.7	5,900.0
Currency in circulation	636.1	675.7	630.9	692.3	729.7	778.1	799.5	798.9	844.0	886.0
Deposits	3,166.5	3,739.3	3,866.9	3,940.6	4,142.6	4,403.8	4,524.8	4,521.4	4,776.7	5,014.0
Domestic currency	1,826.7	2,118.0	2,188.9	2,319.5	2,424.8	2,632.0	2,735.2	2,717.9	2,959.2	3,182.5
Foreign currency	1,339.8	1,621.2	1,678.0	1,621.1	1,717.8	1,771.8	1,789.6	1,803.6	1,817.5	1,831.5
Memorandum items:										
Exchange rate (drams per U.S. dollar, end of period)	480.1	393.6	392.6	386.3	395.6	404.8	...	...	...	...
12-month change in reserve money (in percent)	17.1	5.0	8.6	1.5	-2.3	-4.0	12.0	3.9	7.7	6.2
12-month change in broad money (in percent)	13.1	16.1	18.2	21.5	20.3	17.4	18.4	14.8	15.4	13.9
12-month change in dram broad money (in percent)	12.8	13.4	16.8	21.0	22.9	22.1	25.4	16.8	20.6	19.3
12-month change in private sector credit (in percent)	-3.9	4.5	5.1	12.4	16.0	18.5	15.0	14.0	13.0	11.4
Velocity of broad money (end of period)	1.8	1.9	2.0	2.0	1.9	1.8	1.8	1.9	1.8	1.8
Money multiplier	2.1	2.3	2.6	2.7	2.8	2.8	2.7	3.0	3.0	3.0
Private sector credit (in percent of GDP)	60.2	51.7	48.0	49.9	52.3	54.8	50.4	52.0	54.0	55.9
Dollarization in bank deposits 2/	42.3	43.4	43.4	41.1	41.5	40.2	39.6	39.9	38.0	36.5
Dollarization in broad money 3/	35.2	36.7	37.3	35.0	35.3	34.2	33.6	33.9	32.3	31.0
Currency in circulation in percent of deposits	20.1	18.1	16.3	17.6	17.6	17.7	17.7	17.7	17.7	17.7
NIR (U.S. dollars, actual exchange rate)	1,445.9	1,742.3	1,742.5	2,162.7	2,510.7	1,919.9	2,034.8	1,564.3	1,710.9	1,865.2

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	Mar	Jun	Sep	Dec
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	20.6	20.6	19.9
Capital (net worth) to assets	13.3	13.0	12.8	13.0	14.8	15.2	14.9	14.9	15.4	15.4	15.6	14.8
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	367.0	339.2	327.4	328.9
Energy sector	195.9	127.5	136.5	120.8	132.8	122.1	122.7	127.5	135.4	135.5	140.6	156.7
Agriculture	200.6	190.6	196.3	222.3	230.4	227.5	221.3	238.2	247.6	259.2	273.5	285.6
Construction	275.0	304.2	325.1	315.2	333.7	328.4	340.2	349.6	370.3	400.4	444.0	499.0
Transport and communication	139.8	129.6	121.8	126.9	116.7	101.4	87.3	88.6	92.8	105.1	104.5	107.1
Trade/commerce	532.8	501.3	481.0	482.4	504.9	472.1	477.5	469.7	486.9	501.1	529.6	573.6
Consumer credits	915.6	871.2	833.2	824.8	834.4	824.6	837.6	895.5	928.6	962.6	1040.1	1085.6
Mortgage loans	517.2	551.5	587.3	654.7	698.0	721.9	780.4	849.4	897.7	959.0	997.2	1069.4
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	8.6	7.6	6.9	6.5
Energy sector	4.9	3.4	3.7	3.2	3.4	3.2	3.1	3.1	3.2	3.0	3.0	3.1
Agriculture	5.1	5.1	5.3	5.9	5.9	6.0	5.6	5.7	5.8	5.8	5.8	5.7
Construction	6.9	8.1	8.8	8.3	8.5	8.6	8.6	8.4	8.7	9.0	9.4	9.9
Transport and communication	3.5	3.5	3.3	3.3	3.0	2.7	2.2	2.1	2.2	2.4	2.2	2.1
Trade/commerce	13.4	13.4	13.0	12.7	12.9	12.4	12.1	11.3	11.4	11.2	11.2	11.4
Mortgage loans	13.0	14.8	15.8	17.3	17.8	18.9	19.8	20.4	21.0	21.5	21.1	21.3
Consumer credits	23.1	23.3	22.4	21.8	21.3	21.6	21.3	21.5	21.8	21.6	22.0	21.6
Foreign exchange loans to total loans	51.5	48.4	47.3	45.5	46.0	40.5	38.1	36.6	36.3	35.1	32.8	33.0
Asset quality												
Nonperforming loans (in billions of drams)	290.0	236.8	113.6	74.1	72.6	113.9	129.0	117.4	114.3	128.5	143.0	126.2
Watch (up to 90 days past due)	95.2	75.4	82.6	64.8	82.5	72.7	63.0	67.0	91.7	84.9	101.1	70.7
Substandard (91-180 days past due)	121.5	90.4	66.7	46.4	39.9	37.3	41.3	36.7	38.6	51.1	59.8	87.0
Doubtful (181-270 days past due)	73.3	71.0	46.9	27.7	32.8	76.5	87.8	80.7	75.7	77.4	83.3	39.2
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	487.3	480.7	481.8	480.7
Nonperforming loans to gross loans	7.1	6.1	2.9	1.9	1.8	2.9	3.2	2.8	2.7	2.9	3.0	2.4
Provisions to nonperforming loans	45.2	49.4	84.1	99.7	91.2	76.5	74.5	80.3	82.6	87.6	90.6	103.8
Spread between highest and lowest rates of interbank borrowing	0.9	1.8	0.3	1.6	6.5	1.2	1.5	1.0	0.4	0.3	0.6	0.7
Spread between highest and lowest rates of interbank borrowing	0.4	0.3	0.0	0.6	1.8	1.3	0.5	2.5	1.3	1.0	0.3	0.9
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	3.8	2.7	3.2	2.7
ROE (profits to period average equity)	8.3	6.3	6.6	8.7	16.7	26.3	26.8	27.9	25.1	17.9	20.8	17.4
Interest margin to gross income	35.2	34.5	33.5	32.3	26.2	24.2	24.0	25.0	35.1	36.2	36.5	36.0
Interest income to gross income	76.7	76.5	76.3	75.5	65.0	58.2	55.9	55.4	68.7	69.2	69.0	68.8
Noninterest expenses to gross income	26.7	28.7	28.6	29.3	26.9	25.3	23.9	26.1	30.0	29.9	29.1	36.8
Liquidity												
Liquid assets to total assets	28.1	30.8	31.7	32.0	31.1	32.6	34.8	37.0	38.2	35.5	35.7	33.2
Liquid assets to total short-term liabilities	117.6	122.1	120.1	122.7	117.5	111.8	108.9	102.4	104.6	98.6	102.9	92.2
Customer deposits to total (non-interbank) loans	108.7	115.3	117.3	119.7	114.3	118.2	125.8	135.9	130.4	125.1	122.7	120.9
Foreign exchange liabilities to total liabilities	52.1	49.8	48.4	47.4	47.7	46.8	48.7	50.3	48.5	47.5	47.1	46.1
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	2.0	2.5	2.3	3.6
Net open position in FX to capital	-2.1	-0.1	1.5	4.6	11.1	7.2	5.0	1.9	0.4	0.7	0.9	0.5

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-December 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, 2024–30

	2024	2025	2026	2027	2028	2029	2030
				Projections			
Fund obligations based on existing credit							
(in millions of SDRs)							
Principal	128.6	99.8	45.1	14.2	0.0	0.0	0.0
Charges and interest	20.9	13.2	9.4	7.3	7.0	7.0	7.0
Fund obligations based on existing and prospective credit 1/							
In millions of SDRs	151.7	118.2	61.0	46.4	62.5	55.2	21.2
In millions of US$	201.5	157.4	81.4	61.9	83.5	73.6	28.3
In percent of Gross International Reserves	6.7	5.6	2.5	1.8	2.1	1.7	0.6
In percent of exports of goods and services	1.6	1.6	0.7	0.5	0.6	0.5	0.2
In percent of external public debt service	27.9	14.1	9.2	7.8	9.8	5.3	3.5
In percent of GDP	0.8	0.6	0.3	0.2	0.2	0.2	0.1
In percent of quota	117.8	91.8	47.3	36.0	48.5	42.8	16.5
Outstanding Fund credit based on existing drawings							
In millions of SDRs	159.1	59.3	14.2	0.0	0.0	0.0	0.0
In billions of US$	0.2	0.1	0.0	0.0	0.0	0.0	0.0
In percent of Gross International Reserves	5.6	2.3	0.5	0.0	0.0	0.0	0.0
In percent of exports of goods and services	1.5	0.6	0.2	0.0	0.0	0.0	0.0
In percent of external public debt service	29.3	7.1	2.1	0.0	0.0	0.0	0.0
In percent of GDP	0.8	0.3	0.1	0.0	0.0	0.0	0.0
In percent of quota	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	251.1	188.1	143.0	110.4	59.8	13.8	0.0
In billions of US$	0.3	0.3	0.2	0.1	0.1	0.0	0.0
In percent of Gross International Reserves	11.2	9.0	5.9	4.3	2.0	0.4	0.0
In percent of exports of goods and services	2.7	2.6	1.6	1.1	0.5	0.1	0.0
In percent of external public debt service	46.2	22.5	21.5	18.5	9.4	1.3	0.0
In percent of GDP	1.4	1.0	0.7	0.5	0.2	0.1	0.0
In percent of quota	195.0	146.0	111.0	85.7	46.4	10.7	0.0
Net use of Fund credit (millions of SDRs) existing and prospective 1/	-83.9	-57.1	-61.0	-46.4	-62.5	-55.2	-21.2
Disbursements	67.7	61.1	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	151.7	118.2	61.0	46.4	62.5	55.2	21.2
Memorandum items (adverse scenario)							
Nominal GDP (in millions of US$)	24,503	25,508	27,319	29,313	33,397	35,896	38,559
Exports of goods and services (in millions of US$)	12,481	9,751	11,598	12,898	14,695	15,794	16,966
Gross international reserves (in millions of US$)	2988	2796	3218	3,453	3,934	4,228	4,542

Sources: IMF staff estimates and projections.

1/ Assumes access of 128.8 million SDR over 2024-2025 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, 2022–26
(In millions of U.S. dollars, unless otherwise indicated)

	2022	2023	2024	2025	2026
Gross Financing Needs	**1,772**	**1,477**	**2,371**	**2,957**	**2,983**
Current Account Deficit excluding budget support grants	-139	520	677	1,312	1,420
Change in NFA	882	-510	146	-262	-28
External debt amortization (excluding IMF)	987	1,437	1,378	1,778	1,548
Repayment to the Fund (amortization)	42	30	170	128	43
Financing Sources	**1,772**	**1,477**	**2,371**	**2,957**	**2,983**
FDI	948	389	316	437	454
Loan disbursements (public sector)	570	366	1,506	1,753	1,183
- Program	278	158	750	750	250
- Project	292	208	756	1,003	933
External Grants	31	31	71	21	156
- Program	12	9	35	0	0
- Project	18	22	36	21	156
Other Capital Flows	202	605	478	746	1,189
Errors and Omissions	21	86	0	0	0
Financing Gap	0	0	0	0	0

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

Table 9. Armenia: Decomposition of Public Debt and Debt Service by Creditor, 2023–25 /1

	Debt Stock (end of period, residency principle) 2023			Debt Stock (end of period, instrument principle) 2023			Debt Service 7/					
							2023	2024	2025	2023	2024	2025
	(In mln. US$)	(Percent total debt)	(Percent GDP)	(In mln.US$)	(Percent total debt)	(Percent GDP)	(In US$)			(Percent GDP)		
Total	11294.61	100	48.1	11294.61	100	48.1	include external guarantees					
External (including guarantees)	5950.69	52.7	25.3	6106.64	54.1	26.0	746.51	657.78	935.18	3.2	2.6	3.5
Multilateral creditors /2	3590.06	31.8	15.3	3590.06	31.8	15.3	363.24	473.37	451.15	1.5	1.9	1.7
IMF	310.73	2.8	1.3	310.73	2.8	1.3						
World Bank	1680.17	14.9	7.2	1680.17	14.9	7.2						
ADB/AfDB/IADB	846.32	7.5	3.6	846.32	7.5	3.6						
Other Multilaterals	752.84	6.7	3.2	752.84	6.7	3.2						
o/w: list largest two creditors												
EDB	353.96	3.1	1.5	353.96	3.1	1.5						
EIB	140.69	1.2	0.6	140.69	1.2	0.6						
list of additional large creditors												
Bilateral Creditors	933.88	8.3	4.0	933.88	8.3	4.0	107.73	112.45	110.06	0.5	0.4	0.4
Paris Club	914.96	8.1	3.9	914.96	8.1	3.9	105.17	110.03	107.68	0.4	0.4	0.4
o/w: list largest two creditors												
RF	526.79	4.7	2.2	526.79	4.7	2.2						
France	279.40	2.5	1.2	279.40	2.5	1.2						
list of additional large creditors												
Germany-KfW	239.31	2.1	1.0	239.31	2.1	1.0						
Japan	142.02	1.3	0.6	142.02	1.3	0.6						
Non-Paris Club	18.92	0.2	0.1	18.92	0.2	0.1	2.57	2.43	2.38	0.0	0.0	0.0
o/w: list largest two creditors												
Export-Import Bank of China	16.76	0.1	0.1	16.76	0.1	0.1						
Abu-Dhabi Fund for Development	2.16	0.0	0.0	2.16	0.0	0.0						
list of additional large creditors	-											
Bonds /3	1407.21	12.5	6.0	1563.17	13.8	6.7	273.29	69.14	371.11	1.2	0.3	1.4
Commercial creditors	19.54	0.2	0.1	19.54	0.2	0.1	2.24	2.81	2.86	0.0	0.0	0.0
o/w: list largest two creditors		0.0	0.0		0.0	0.0						
Erste Bank/Austria	14.27	0.1	0.1	14.27	0.1	0.1						
Raiffeisen Bank/Austria	4.19	0.0	0.0	4.19	0.0	0.0						
list of additional large creditors												
Other international creditors	-			-								
o/w: list largest two creditors												
list of additional large creditors												
Domestic (including guarantees) /4	5343.9	47.3	22.8	5188.0	45.9	22.1	941.62	1050.61	957.50	4.0	4.2	3.6
Held by residents, total	5343.9	47.3	22.8	4809.6	42.6	20.5						
Held by non-residents, total				360.6	3.2	1.5						
T-Bills	317.1	2.8	1.4	317.1	2.8	1.4	325.58	320.60	0.14	1.4	1.3	0.0
Bonds	4853.1	43.0	20.7	4853.1	43.0	20.7	616.04	730.01	957.36	2.6	2.9	3.6
Loans												
Domestic guarantees	17.7	0.2	0.1	17.7	0.2	0.1	8.7	1.9	9.4	0.0	0.0	0.0
Memo items:												
Collateralized debt /5	0	0	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Related												
o/w: Unrelated												
Contingent liabilities												
o/w: Public guarantees	25.19	0.0	0.1	25.19	0.2	0.1	9.07	2.59	10.10	0.0	0.0	0.0
o/w: Other explicit contingent liabilities /6												

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is central government

2/ Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/ Based on residency principle all Treasury Bonds and Eurobonds acquired by non-residents are included in the line "Bonds" as part of external debt

4/ Based on residency principle all Treasury Bonds and Eurobonds acquired by residents are included in the line "Domestic" as part of external debt

5/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

6/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

7/ Debt service profile is represented based on debt instrument principle, because data by residency principle is not available

Annex I. Risk Assessment Matrix

Risk	Description	Likelihood	Possible Impact	Policy Advice
Conjunctural Risks				
Intensification of regional conflicts.	Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	Regional conflicts including the conflict in Gaza and Israel, tensions with Azerbaijan, war in Ukraine and 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 cautious approach to monetary policy to keep inflation expectations anchored. Allow the exchange rate to act as a shock absorber. Build fiscal buffers and provide targeted support to the most vulnerable. 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, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High	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.
Abrupt global slowdown or recession.	Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	Medium	A slowdown in trading partners will affect economic activity and result in an abrupt bout of risk aversion for Armenia.	Strengthen and diversify trade channels/markets. Allow the exchange rate to operate as a shock absorber, intervene in the fx market to address disorderly market conditions. Monitor risks emerging in the financial sector, conduct stress

Risk	Description	Likelihood	Possible Impact	Policy Advice
	• **China:** Sharper-than-expected contraction in the property sector weighs on private demand, further amplifies local government fiscal strains, and results in disinflationary pressures and adverse macro-financial feedback loops. • **Europe:** Intensifying fallout from Russia's war in Ukraine, supply disruptions, tight financial conditions, and real estate market corrections exacerbate economic downturn. • **U.S.:** Amid tight labor markets, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing, and commercial real estate market correction.			tests and strengthen financial supervision and oversight.
Monetary policy miscalibration.	Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.	Medium	Domestic inflation may rebound.	Monetary policy stance should be proactive, cautious and data driven. Stand ready to tighten monetary policy or adjust the pace of easing as needed along with an appropriate monetary-fiscal policy mix to contain inflation.
Systemic financial instability.	High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	Medium	Armenia's external debt is not sensitive to interest rate 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. Develop domestic markets to diversify the borrowing sources and reduce reliance in external debt.
Sovereign debt distress.	Domino effects from high global interest rates, a growth slowdown in AEs, unfunded fiscal spending, and/or disorderly debt events in some	Medium	Armenia's debt is particularly vulnerable to growth and exchange rate risks. Higher global interest	Fiscal policy should be prudent. Build fiscal buffers by raising revenues and prioritizing spending to guard against risks. Develop domestic financial

Risk	Description	Likelihood	Possible Impact	Policy Advice
	EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access.		rates for long, coupled with potential reversal of large capital and migrant inflows due to the war in Ukraine, could result in depreciation of exchange rate and lower growth.	markets to diversify sources of borrowing and reducing reliance on external debt.
Social discontent.	High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.	Medium	Negative spillovers from the war in Ukraine and regional tensions, 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.
		Structural Risks		
Deepening geo-economic fragmentation.	Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower 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. Prepare and implement contingency plans. Allow the exchange rate to operate as a shock absorber and intervene to address disorderly market conditions. Strengthen social safety nets. Undertake structural reforms to build resilience of the domestic economy and to diversify Armenia's trade basket and trading partners.
Cyberthreats.	Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies 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 driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower	Medium	Higher frequency and severity of natural disasters would cause severe economic	Undertake a comprehensive climate risk assessment of Armenia and develop national adaptation policies to strengthen

Risk	Description	Likelihood	Possible Impact	Policy Advice
	growth, and financial instability.		damages and disrupt economic activities.	the resilience against climate change risks.
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 maintain CBRs. Implement macroprudential measures. Closely monitor the financial sector and conduct stress tests. Continue improving the effectiveness of NPL resolution approaches.
Geopolitical tensions and regional conflict.	Risks from tensions at the border with Azerbaijan and possibly renewed military conflict, the spillovers of the war in Ukraine, and deteriorating relations with Russia may slow down growth in the Armenian economy.	High	Armenia may continue to face greater uncertainty, higher fiscal spending need including on emergency social support, higher debt levels, lower trade, investment, and remittances, exchange rate pressures, and food supply disruptions (e.g., due to ban on food items by Russia).	Prepare, and implement contingency plans, raise revenues and prioritize expenditures, strengthen social safety nets, diversify trade markets/channels, enhance monitoring of the financial sector, increase flexibility of the exchange rate as a shock absorber. CBA interventions in the FX market in case needed to address disorderly market conditions.
Resurgence of inflationary pressures.	Higher aggregate demand, including due to the inflow of international visitors and money transfers, influx of migrants, supply constraints, resurge in global and domestic food and energy prices and monetary and fiscal policy miscalibrations could lead to resurge in inflationary pressures.	Medium	Resurgence in inflationary pressures could lead to another cycle of monetary policy tightening that may constrain access to finance, dampen economic activity, 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

Armenia remains susceptible to shocks, with potential repercussions for its economy. However, even if moderate shocks were to occur, the authorities have a proven track record of policy response and access to financing to weather such shocks successfully and maintain financial stability.

1. Adverse scenario. For illustrative purposes, this scenario simulates a contraction in real growth for major global economies including Russia, the Euro Area, the United States, and China, anticipated to commence in 2024Q3 and deepen later in the year. The scenario also envisages a simultaneous economic downturn driven by the reversal of various spillovers from War in Ukraine. A notable decrease in exports and imports to Russia is projected, bringing trade flows back to historical trends. Monetary transfers and gross capital inflows are also assumed to decline—including due to jitters about a potential regional conflict—accompanied by a reduction in credit services attributed to a decrease in foreign visitors. In this complex landscape, it is projected that the economy may exhibit scarring effects throughout 2024 and 2025; however, a rebound in growth rates is envisaged for the year 2026.[1]

- **Current account**. In such an adverse scenario, goods exports contract by approximately 30 percent relative to the baseline (1.2 historical standard deviations in exports). This decline is mainly led by Russia's exports as the trading partner contributing to roughly 60 percent of the total growth in 2022. Goods imports also decrease by 17.5 percent, possibly reflecting re-export dynamics and 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) and 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 USD 0.9 billion in 2024, in the shock scenario, net inflows are expected to decline by approximately USD 0.7 billion relative to this amount 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.

2. Effects. The weaker current and financial account position would put downward pressure on the exchange rate. At the same time, growth and private consumption would decline due to weaker external demand and remittances. The current account would initially widen in response to a significant decrease in exports, 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 revert to the baseline projection gradually.

[1] See also 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

	2024		2025		2026	
	Baseline	Adverse Scenario	Baseline	Adverse Scenario	Baseline	Adverse Scenario
National Income and Prices						
Real GDP (percent change)	6.0	2.5	5.3	3.0	4.5	4.5
CPI (Period average; percent change)	2.2	5.1	3.8	6.0	4.0	4.0
Overall Balance on a cash basis (in percent of GDP)	-4.6	-6.4	-4.6	-5.2	-4.3	-4.2
Central Government PPG Debt (in percent)	49.9	60.9	50.8	58.8	51.5	54.8
Current Account Balance (in percent of GDP)	-2.5	-4.1	-4.9	-5.7	-4.9	-5.0
Gross international Reserves (in millions of U.S. dollars)	3748	2648	3486	2126	3458	2548

Source: National authorities, and IMF staff calculations and projections.

3. Policies. The adverse scenario assumes that the CBA will tighten monetary policy to control inflationary pressures from nominal depreciation. The central bank would also remain ready to implement targeted interventions to avoid disorderly conditions in FX markets, but will 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 2.4 percent of GDP in 2024–25 as the authorities let automatic stabilizers operate before reverting to its baseline projection in 2026. A larger budget deficit and the large dram depreciation imply a temporary increase in government debt in 2024 by approximately 11 percent relative to the baseline. Government debt would subsequently decline, consistent with a gradual appreciation of the currency and fiscal consolidation.

4. Implications. In the simulated shock scenario, the authorities' policy response will absorb the bulk of the pressures, but gross international reserves would decline to approximately 92 percent of the ARA metric in 2024, 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 500 million during 2024–25 would ensure that reserves remain at or close to 100 percent of the ARA metric by the end of the program. In the event of a significant downturn in the macroeconomic environment, the program modalities can be modified, if needed, following a request from the authorities and subsequent Board approval.

Table AII.2. Armenia: Potential Impact of Adverse Shocks
(In millions of U.S. dollars, unless otherwise indicated)

	Baseline			Shock		
	2024	**2025**	**2026**	**2024**	**2025**	**2026**
Current account	-642	-1,312	-1,420	-1,043	-1,572	-1,470
Exports G&S	13,933	12,518	12,494	11,204	10,799	11,772
Imports G&S	-14,678	-13,885	-13,956	-12,220	-12,343	-13,213
Incomes and transfers (net)	102	55	42	-27	-28	-30
Capital & financial account	959	1,183	1,452	259	1,183	1,952
Overall balance	317	-129	33	-784	-389	482
Financing						
Change in reserves (increase -)	-146	262	28	954	522	-422
Net use of Fund credit (repurchase)	-171	-133	-60	-171	-133	-60
Gross international reserves	3748	3486	3458	2648	2126	2548
As % of ARA metric	**120**	**111**	**108**	**92**	**71**	**77**
Under the proposed IMF-supported program:						
Proposed IMF financing in adverse scenario				90	80	0
Assumed financing from development partners 1/				250	250	0
Gross international reserves				2988	2796	3218
As % of ARA metric				**104**	**93**	**97**

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, 2024

Dear Ms. Georgieva:

1. **Our economy has shown resilience to multiple shocks and continues to grow robustly, including on the back of strong policy efforts.** Despite being hit by several shocks, our economy grew by 8.7 percent in 2023. Growth is expected to continue decelerating to more sustainable levels over the next two years. Inflation has rapidly declined while inflation expectations remain broadly anchored despite high uncertainty. Fiscal and external positions remain strong, and the banking system is well capitalized and liquid. Our swift policy response helped to limit the humanitarian crisis from displacement of over 100,000 refugees from Nagorno Karabakh and we continue to work towards their integration in the Armenian economy. We met all quantitative performance criteria (QPC) and indicative targets (IT) for end-December 2023 and made steady progress toward meeting the structural benchmarks. We will also conduct a consultation with the Executive Board of the IMF on the inflation outlook in line with the monetary policy consultation clause (MPCC).

2. **The attached update to the Memorandum of Economic and Financial Policies (MEFP) describes more fully our achievements and further policy steps and reforms to meet our IMF-supported program objectives.** In particular, to better align the program with current developments and facilitate meeting program objectives, we request modifications to the program: (i) the end-June MPCC be lowered to reflect the recent significant decline in the inflation rate; (ii) the end-June QPC on net international reserves be revised downward; (iii) the March 2024 SB to approve an export strategy be reset to allow identification of specific policies; (iv) the June 2024 SB to align legislation defining public investment be modified and rescheduled to September 2024 to allow time for cabinet deliberations; (v) the June 2024 SB to empower the revenue administration to audit natural persons be modified; (vi) QPCs be set for end-December 2024; and (vii) new structural benchmarks be set as outlined in the attached MEFP.

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

4. **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 to 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 third 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 November 16, 2023, 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 2023 economic performance remained remarkably strong. Real GDP grew by 8.7 percent in 2023 mainly driven by consumption and investment. After its historic low of 11.6 percent in 2022Q3, unemployment rate stabilized around 12.5 percent in 2023 and nominal wage growth has slowed. Inflation declined significantly (at -0.6 percent in December 2023 and -1.2 percent y-o-y in March 2024), mainly due to falling food prices amid sticky service price inflation. Despite a widening trade deficit, the current account deficit remained contained at 2.1 percent of GDP in 2023, supported by strong tourism. Capital inflows declined, while international reserves decreased by $416 million in 2023-Q4. The 2023 fiscal deficit at 2 percent of GDP was lower than projected due to expense containment. Central government debt increased to 48.1 percent of GDP with the assumption of Nagorno-Karabakh (NK) liabilities to Armenian banks of 2.2 percent of GDP in December 2023. Banks have strong capital and liquidity buffers, and their profitability remains high.

3. We expect growth to remain buoyant this year, albeit lower. Growth will ease as income and capital inflows moderate and global financial conditions remain tight. However, economic activity will continue to be supported by strong export of services and public capital spending. Inflation is expected to pick up in the second half of the year and gradually converge to the target level in the medium-term. Significant risks to the outlook arise from geopolitical tensions and the possibility that growth in trading partners falters or capital inflows reverse abruptly. A resurgence in global food and energy prices, due to Red Sea transit disruption or further oil production cuts, could lead to stronger pickup in inflation. Growth could also surprise on the upside in the event of stronger than anticipated export receipts, and faster implementation of structural reforms planned under the 2021–26 Government Program. The large influx of migrant labor and fast refugee integration could also provide an upside to potential growth.

B. Economic Policies for the Remainder of 2024 and Beyond

Fiscal Policy

4. We are committed to fiscal prudence and meeting our 2024 budget targets in line with the SBA-supported program. We expect revenue buoyancy to improve, including due to ongoing revenue administration efforts. Spending to support refugees from NK is expected to remain manageable and within the 2024 budget targets. Priority spending, focused on roads, schools, kindergartens, water management, social protection, and national security will be supported by tax revenue enhancing measures.

5. In the medium term, we will continue preserving macro-fiscal stability and moderate debt levels in line with the fiscal rules, while supporting Armenia's economic development. The upcoming 2025–27 Medium-Term Expenditure Framework (MTEF) will accommodate higher spending on national security, infrastructure, healthcare, social protection, and refugee integration. We are conducting a comprehensive need assessment of the refugee population, including a sustainable housing solution. We have drafted an employment strategy creating jobs in communities that include regional cities and are finalizing the benefits package and financing sources of a universal health insurance program. These reforms will be supported by revenue mobilization and expenditure prioritization. We remain committed to keeping debt moderate through gradual medium-term fiscal consolidation and protecting fiscal sustainability against exchange rate and growth risks.

6. We continue strengthening revenue mobilization to support our spending priorities.

- *Tax Policy*. We are working to identify tax policy measures that will yield additional revenue of at least 0.75 percent of GDP. We are preparing to raise the turnover tax rates and streamline the activities allowed in the regime, harmonizing the effective tax burden vis-à-vis the standard CIT and VAT regime. We have expanded the gradual phase out of the mortgage interest tax credit to the outer regions and abolished the CIT exemption for IT startups since January 2024. We expect already legislated increases of environmental taxes on imported vehicles and other excises to continue raising revenue collection. Altogether, these measures are expected to yield 0.3 percent of GDP in additional tax revenues. By end-2024, in consultation with IMF staff, we will design further tax policy measures to enhance the taxation of financial sector activities and capital gains.

- *Revenue administration*. Strengthening revenue administration capacity and reducing the informal economy will help achieve our medium-term tax-to-GDP target. The universal PIT declaration was rolled out in January 2024. We have also amended the tax code to improve the State Revenue Committee's (SRC) access to third-party information (e.g., from public utilities and summary bank account information) required to verify PIT declarations and will continue to make progress in strengthening SRC's audit capacity of individual taxpayers. A forthcoming Tax Administration Diagnostic Assessment Tool evaluation will help identify further areas of reform focus.

7. We are making steadfast progress with public financial management reforms.

- *Organization of the Ministry of Finance (MOF)*. A recently completed functional review of the MOF will guide improvement of its operational and policy coordination and serve as a model for a broader public administration review. We have also finalized the terms of reference for a tender on the new Government Financial Management Information System, including a module on employee data that will further support efficiency-enhancing civil service reforms.

- *Public Investment Management (PIM)*. We remain committed to strengthening the PIM framework and processes to ensure an effective cycle of planning, budgeting, appraisal, implementing, and monitoring of large capital projects. To support the PIM integration into the budgetary process, we will transfer its institutional management and existing capacity from the Ministry of Economy (MOE) to the MOF. We are also working towards amending the Budget System Law and PIM decree to clarify the definition of public investment projects and are building PIM capacity in line ministries.

- *Fiscal Risk Management*. We have adopted a state ownership policy concept note, which defines a strict rationale for public sector ownership of commercial enterprises, and the government's role in their oversight. We will follow through with the approval of a government decree adopting a state ownership policy and an action plan for its implementation (**June 2025 SB)**. In line with this policy, we commit to: (i) promptly realigning the governance and accountability of the Armenia National Interest Fund (ANIF) with the decree establishing and regulating ANIF or developing a plan for winding it down and divesting from its investments; (ii) divesting from recently obtained minority stakes in commercial enterprises in case ownership of such stakes does not align with the state ownership policy goals; and (iii) strengthening the MOF's financial and fiscal oversight over state-owned enterprises to ensure proper assessment of fiscal risks. We have also drafted amendments to our public debt legislation to broaden the public debt coverage and improve debt management practices. Furthermore, we will improve fiscal risk reporting, including: (i) aligning the accounting and recognition of PPP assets and direct liabilities with the accrual based Armenian public sector accounting standard (APSAS 32); and maintaining controls for the stock of government guarantees through a revision of the Budget System Law. We continue working toward establishing an effective overall cap of PPP-related contingent liabilities, including legacy PPPs (such as those related to the Zvartnots airport concession).

- *Fiscal Framework*. With support by IMF TA, we will conduct a comprehensive review of the MTEF and the annual budget processes to identify gaps and weaknesses that hinder their effective implementation and measures that strengthen medium-term fiscal planning **(June 2025 SB**). Based on this review, we will implement the necessary legislative and procedural changes to enhance the medium-term fiscal planning, including to allow more time for policy deliberations, increase budget flexibility, and ensure smoother implementation of capital spending.

Monetary and Financial Sector Policies

8. The CBA remains committed to its price stability objective. Amid deflationary pressures and to guide inflation to the CBA's target of 4 percent, we have lowered the policy rate by 250 basis points to 8.25 percent since June 2023. Nonetheless, in view of the significant uncertainty to the inflation outlook, we will continue monitoring closely economic developments and stand ready to take necessary policy actions to ensure that inflation expectations remain anchored. We transitioned to the risk-management approach to monetary policy in January 2024 and have adopted a new communication strategy to enhance monetary policy transparency and ensure clarity of the CBA's objectives. We are also conducting a comprehensive review of CBA's governance structure with support from IMF CD to further improve policy decision-making arrangements.

9. We are taking measures to mitigate the buildup of risks from rising house prices and fast-growing mortgage lending. We conducted a macro-financial stress test with a severe adverse scenario to assess the resilience of the banking system. While we observe a decline in the aggregate capital adequacy ratio, the banking system can withstand the shock. The countercyclical capital buffer of 1.5

percent plays an important role in enhancing banking sector resilience to unexpected cyclical credit losses. In the event of further acceleration of credit growth to private non-financial sector and excessive credit risk taking in the balance sheets, the CBA is ready to increase the CCyB rate further, which could be released in the event of an adverse shock. To further reflect risks associated with housing market and construction sector lending, we will consider increasing the risk weights of construction loans, while the Government has adopted amendments to the Civil Code to limit the use of funds in escrow accounts by property developers.

10. We are advancing our efforts to further improve our supervisory toolkit and capacity. To better assess the risks in the banking system against the backdrop of rapid growth in the banks' balance sheet and volatile interest rates, with support by IMF technical assistance, we are conducting an impact study of the interest rate risk in the banking book (IRRBB), using the Basel framework methodology. We have prepared a draft law on bank resolution following the Financial Stability Board's Key Attributes for effective resolution—which clearly defines the role of the CBA and the government's primary responsibility for resolution funding—and will submit it to Parliament by June 2024, after discussions with relevant government stakeholders. Furthermore, we will submit to parliament an amendment to the Central Bank Law and, if relevant, to other laws to allow the implementation of an early intervention framework by supervisors (**September 2025 SB**), which is crucial for an effective supervisory review and evaluation process of banks (SREP) and for the implementation of the resolution framework.

Structural Reforms

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

- *Labor market.* We have drafted an employment strategy, which aims at boosting labor force participation among the vulnerable population. The strategy aims to introduce policies to enhance skills, invest in vocational training, and improve child-care. Lessons from pilot active market programs will be integrated into the implementation of the strategy. To facilitate thorough assessment of labor market conditions, the strategy seeks to modernize labor market data processes, including data collection, processing, production, and timely dissemination by the Statistical Committee (ARMSTAT).

- *Access to finance*. We adopted and posted for public consultation a concept note to upgrade the insolvency legislation by increasing the protection of creditor rights, improving the efficiency of insolvency processes, upgrading the restructuring toolbox, and increasing the capacity and accountability of insolvency administrators. On this basis, we will submit to parliament revised insolvency legislation improving the effectiveness of insolvency proceedings and the protection of creditor rights (**October 2025 SB)**. Alongside, by July 2024, we will approve a revised corporate governance code, which aims at enhancing the accountability of publicly traded, private, and state-owned companies.

- *Trade diversification*. We have made progress towards developing an export strategy, which intends to encourage diversification in the country's export basket and markets, by addressing bottlenecks to trade expansion and improving the capacity to export high value-added products in third countries.

An extensive diagnostic work has identified a host of obstacles to trade diversification, including a fragmented institutional export-promotion framework, burdensome regulatory requirements, lack of compliance with international standards, logistical challenges, and lack of capacity to ensure effective integration with international markets. Further work is needed to identify specific policies to address these obstacles, and we intend to finalize the export strategy by September 2024.

C. Program Monitoring and Safeguards

12. 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 fourth and fifth reviews are expected to be completed on or after December 11, 2024, and June 9, 2025, respectively.

13. The CBA will continue maintaining a strong safeguards framework and internal controls environment. The IMF safeguards assessment mission completed in June 2023 confirmed that the CBA maintains a strong safeguards framework, has well established safeguards in its external and internal audit arrangements, and sound financial reporting practices. In line with these findings and to safeguard CBA's autonomy, we will refine the draft law on Public Audit Chamber (hereinafter referred to as "Law") to preclude audits of the CBA from affecting the independence of the CBA. The Law will explicitly: (i) exclude the possibility that the Public Audit Chamber reviews and questions the CBA's policy decisions or assesses its internal control function; (ii) require that audits of the central bank by the Public Audit Chamber be performed in accordance with relevant international standards and practices such as those promulgated by INTOSAI and (iii) clearly state that the audits will be confined to the budgetary items which are subject to Parliamentary approval given the scope and the nature of that audit is explicitly defined. The CBA will complete a self-review of its current transparency practices against the IMF's Central Bank Transparency Code using the dedicated IMF self-review template to further align them with international best practices. Furthermore, the CBA has taken steps, with support by IMF technical assistance, to advance the implementation of the safeguards recommendations, particularly in relation to governance modalities; legal framework; and institution-wide risk management. The CBA will also identify further steps to address recommendations related to 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								2025	
	Dec 2/			Mar. 3/		Jun. 2/			Sep. 3/		Dec. 2/				Mar. 3/			Jun. 2/		Sept 3/	Dec. 2/		Mar. 3/	Jun. 3/
	Target	Act.	Status	Indic. Target	Act.	Target	Act.	Status	Indic. Target	Act.	Target	Adj. Target	Act.	Status	Indic. Target	Adj. Target	Act.	Target	Revised Target	Indic. Target	Target	Revised Target	Indic. Target	Indic. Target
Performance Criteria																								
Net official international reserves (stock, floor, in millions of U.S. dollars) 4/	1,600	1,703	Met	1,531	1,721	1,654	2,125	met	1,556	2,286	2,010	1,793	1,901	met	2,021	1,998	1,693	1,796	1,400	1,632	1,801	1,801	1,700	1,600
Program fiscal balance (flow, floor) 4/5/ 9/	-384	-321	Met	-124	50	-211	70	met	-314	-87	-465	-643	-537	met	-121	-120	13	-198	-198	-336	-519	-519	-111	-250
Budget domestic lending (cumulative flow, ceiling) 4/9/	5	0.3	Met	10	0.0	10	0.1	met	10	0.1	10		4.4	met	10	10	3.6	10	10	10	10	10	10	10
External public debt arrears (stock, ceiling, continuous criterion)	0	0	Met	0	0	0	0	met	0	0	0		0	met	0	0	0	0	0	0	0	0	0	0
MPCC 6/																								
Inflation (upper-outer band, inflation consultation, percent)	12.5			11.5		8.0			7.5		5.0				6.5	6.5		6.5	5.8	6.5	6.5	5.8	6.1	6.5
Inflation (upper-inner band, percent)	11.5			10.5		7.0			6.5		4.0				5.5	5.5		5.5	4.8	5.5	5.5	4.8	5.1	5.5
Inflation (mid-point, percent)	10.0	8.3	Not Met	9.0	5.4	5.5	-0.5	Not met	5.0	0.1	2.5		-0.6	Not met	4.0	4.0	-1.2	4.0	3.3	4.0	4.0	3.3	3.6	4.0
inflation (lower-inner band, percent)	8.5			7.5		4.0			3.5		1.0				2.5	2.5		2.5	1.8	2.5	2.5	1.8	2.1	2.5
Inflation (lower-outer band, inflation consultation, percent)	7.5			6.5		3.0			2.5		0.0				1.5	1.5		1.5	0.8	1.5	1.5	0.8	1.1	1.5
Indicative Targets																								
New government guaranteed external debt (stock, ceiling, in millions of USD) 7/	100	0	Met	100	0	100	0	met	100	0	100		0	met	100	100	0	100	100	100	100	100	100	100
Social assistance spending of the government (flow, floor) 8/ 9/	65.0	75.9	Met	20.0	...	40.1	41.7	met	60.1	64.6	80.2		85.1	met	22.0	22.0	23.6	44.0	44.0	69.0	94.0	94.0	24.0	50.0

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 2024 data are preliminary.

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 Actions and Structural Benchmarks Under the SBA

Deadline	Status	Macro Criticality	Responsible Agency	Measure
Fiscal Policy and Fiscal Structural Reforms				
December 2022	Met (prior action)	Ensure macro-fiscal stability	MOF	Adopt 2023 budget with an overall deficit of around 3 percent of GDP.
March 2023	Met (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	Met	Improve tax compliance	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	Met	Mobilize tax revenue	MOF/SRC	Publish a detailed assessment of tax expenditures and an action plan for their rationalization.
June 2023	Not met/ implemented with delay	Improve public financial management and reduce fiscal risks	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	Not met/ implemented with delay		MOF	Develop a concept note on monitoring, approval, and control framework related to local governments and local government borrowing.
December 2023	Rescheduled to June 2024	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	Met	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.
December 2023	Met (prior action)	Prevent overheating of the economy	MOF	Adopt a 2024 budget with an overall deficit of 4.6 percent of GDP.
March 2024	Not met/implemented with delay	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.
March 2024	Not met/implemented with delay	Improve public financial management	MOF	Adopt a Concept Note for a State Ownership Policy, defining the rationale for owning SOEs and the government's role in their oversight.
June 2024	Proposed to be modified and rescheduled to September 2024	Improve public financial management	DPM/MOE/MOF	Amend the Budget System Law and PIM decree to clarify the definition of public investment projects in both legal frameworks.
June 2024	Proposed to be modified	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 2024		Mobilize tax revenue and improve progressivity	MOF/SRC	Submit to parliament, during the course of 2023–24, tax policy reforms yielding at least 0.75 percent of GDP in additional revenue cumulatively by 2026.

Table 2a. Armenia: Prior Actions and Structural Benchmarks Under the SBA (Concluded)

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	Met	Strengthen the regulatory and supervisory framework	CBA	Develop a formal roadmap for introduction of Pillar 2 capital buffers.
December 2023	Met	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	Met	Enhance monetary policy transparency	CBA	Prepare and adopt an enhanced CBA communication strategy on monetary policy.
June 2024		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.
December 2024			CBA	Conduct an impact study of the interest rate risk in the banking book (IRRBB), using the methodologies indicated in the Basel framework.
Structural Reforms				
June 2023	Met	Infrastructure development	DPM/MOF/MTAI	Conduct a study to identify bottlenecks in the execution of foreign-funded projects.
September 2023	Met	Improve the business environment	MOI	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.
December 2023	Not met/expected to be implemented by July 2024	Improve the business environment	MOE	Approve the newly revised corporate governance code.
January 2024	Met	Improve the business environment and access to finance.	MOJ	Adoption and submission to Cabinet of the concept note for insolvency reform, aiming to increase the protection of creditor rights, improve the efficiency of insolvency processes, upgrade the restructuring toolbox, and increase the capacity of insolvency administrators.
March 2024	Not met/Proposed to be rescheduled to September 2024	Support export-oriented growth	MOE	Complete and approve an export strategy that identifies and streamlines bottlenecks to export expansion.
June 2024		Enhance labor force participation and boost employment.	MLSA	Approve a costed employment strategy that details plans to bolster active labor market policies and modernize labor market statistics to inform the implementation of employment policies.

Table 2b. Armenia: Proposed Modifications of Structural Program Conditionality

Deadline	Status	Macro Criticality	Responsible Agency	Measure
Fiscal Policy and Fiscal Structural Reforms				
June 2024	Proposed to be modified	Improve tax compliance	MOF/SRC	Submit to parliament an amendment to the Tax Code to empower the SRC with authority to audit natural persons and include broader indirect audit methods.
September 2024	Proposed to be modified and rescheduled from June 2024	Improve public financial management	DPM/MOE/MOF	Submit to parliament an amendment to the Budget System Law and revise the PIM decree to clarify the definition of public investment projects in both legal frameworks.
June 2025	New proposed structural benchmark	Improve public financial management and reduce fiscal risks	MOF	Approve a government decree adopting a state ownership policy based on the previously approved concept note, along with an action plan aimed at implementing the policy.
June 2025	New proposed structural benchmark	Improve public financial management and reduce fiscal risks	MOF	Complete a comprehensive review of the MTEF and the annual budget process to identify gaps and weaknesses that hinder their effective implementation and measures that strengthen medium-term fiscal planning, including by allowing more time for policy deliberations, increasing budget flexibility, and ensuring smoother implementation of capital spending.
Monetary Policy and Financial Sector Reforms				
September 2025	New proposed structural benchmark	Improve central bank effectiveness	CBA	Submit to parliament an amendment to the Central Bank Law and, if relevant, other laws to allow the implementation of an early intervention framework by supervisors.
Structural Reforms				
September 2024	Rescheduled from March 2024	Support export-oriented growth	MOE	Complete and approve an export strategy that identifies and streamlines bottlenecks to export expansion.
October 2025	New proposed structural benchmark	Improve the business environment and access to finance.	MOJ	Submit to parliament legislation to improve the effectiveness of insolvency proceedings and strengthen the protection of creditor rights, in line with international standard.

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, 2024.

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 2024 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 2024 test date.

Inflation Consultation Bands

	Jun-24	Dec-24
Upper outer band	5.8	5.8
Upper inner band	4.8	4.8
Center point	**3.3**	**3.3**
Lower Inner band	1.8	1.8
Lower outer band	0.8	0.8

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

[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).

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.

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

[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.

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 on-lending) 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. For 2024, 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. For 2025, the floor on the program fiscal balance on a cash basis will be adjusted downward by the cumulative total amount of the project financing loans received in excess of the program amounts (Table 2), subject to a cap of $263.8 million. For 2025, the floor on the program fiscal balance on a cash basis will be adjusted upward by the cumulative total amount of the project financing loans received as a shortfall of the program amounts (Table 2), subject to a cap of $100 million. Finally, the floor on the program fiscal balance will be adjusted downward by a maximum of AMD 20 billion to the extent that the Republic of Armenia assumes the loans extended by Armenian banks that became non-performing after the September 2020 military conflict in a manner that ensures no further fiscal support.

- **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	CBA foreign exchange operations, (exchange rate, volume)	Daily	Within 1 day
	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 allocated by commercial banks	By currency and maturity	Weekly	First working day of the next week
	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	loan maturities;	Monthly	Within 25 days of the end of

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
				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
	T-bill and coupon bond financing	By holders, i.e., CBA, resident banks, resident nonbanks, and nonresidents	Monthly	Within 7 days of each month
CBA and Ministry of Finance	External debt	Disbursements, amortization, 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. Information about disbursements, amortization, and the stock of outstanding short-, medium-, and	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)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		long-term debt should include disaggregation by instrument, purpose, and lender.		
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 government (NCEs)	Quarterly	Within 60 days of the end of each quarter
	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	Monthly	Within one month following the end of each month.

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		according to both economic and functional classifications, consistent with the GFSM2001 methodology		
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 additional revenue to be collected from risk-based audits	Monthly	Within 45 days of the end of each quarter (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.

Table 2. Armenia: External Disbursements through the CBA in 2024–25 1/

(In millions of U.S. dollars)

	Jun-24 Prog.	Sep-24 Prog.	Dec-24 Prog.	Mar-25 Prog.	Jun-25 Prog.
Budget support grants	0	16	35	35	35
Budget support loans	0	250	750	750	750
Project support grants	14	21	36	41	46
Project financing loans	49	73	158	170	207
CBA project loans	20	40	60	70	90
EEU transfers	0	0	0	0	0
Privatization proceeds	0	0	0	0	0
Amortization	-148	-210	-289	-668	-785

1/ Cumulative during the program review

Attachment III. Consultation with the IMF Executive Board on the Missed Inflation Target Under the MPCC

Consultation on Breach of MPCC Target in December 2023.

Central Bank of Armenia

April 29, 2024

In December 2023, 12-month CPI inflation declined to -0.6 percent, 0.6 percentage points below the lower outer bound of the inflation consultation band of 0.0 percent, agreed under the SBA. This letter explains: (1) the reasons why inflation has breached the lower limit of the inflation consultation band; and discusses: (2) the CBA's policy response; and (3) the outlook of inflation.

1. Inflation Deviation from the Consultation Band

Throughout 2023, inflation has rapidly decelerated, hovering around 0 percent after the second quarter, driven by both external and domestic factors, which we briefly discuss below.

Global economy and international prices

A substantial downward adjustment and lower prices in international commodity prices, particularly for food and energy over the past year, have significantly decreased inflation among our trading partners and in Armenia. The 12-month inflation rate declined from 8.3 percent in December 2022 to -0.6 percent in December 2023, due primarily to lower prices of imported food and non-food products, with subsequent secondary effects on other components of the CPI basket. Food price inflation—which accounts for more than 45 percent of Armenia's CPI basket—declined to -3.5 percent in December 2023, while inflation of non-traded services remained relatively elevated at round 3–6 percent throughout the year.

Appreciation of the exchange rate

During 2022–23, Armenia experienced significant capital and financial inflows. At the same time, there was a considerable surge in international visitors and tourists seeking Armenian goods and services. These factors resulted in a sizeable appreciation of the Armenian dram, cushioning the underlying inflationary pressures stemming from strong domestic demand. Due to lags in exchange rate pass-through, the bulk of the impact was observed in 2023, further contributing to import price deceleration.

Constrained domestic consumption and cooling labor market

In 2022–23, economic growth significantly accelerated in Armenia, leading to a considerable increase in domestic income. However, domestic demand did not respond proportionally to the rise in income as households and businesses accumulated substantial savings due to the uncertain economic outlook. As a result, domestic consumption remained relatively restrained, contributing to the subdued inflationary pressures throughout 2023.

At the same time, growth in labor supply, due to a combination of migrant workers to Armenia and the gradual integration of Armenian refugees from Nagorno-Karabakh into the labor market, contributed to lowering wage growth, service price inflation, and inflation expectations.

To summarize, lower-than-projected commodity prices, the gradual pass-through of exchange rate appreciation, and a swifter rebalancing of aggregate demand and supply in the labor market have all contributed to the deceleration and stabilization of headline inflation below but near the lower bound of the monetary policy consultation band.

2. Policy Response

In June 2023, the CBA initiated a monetary easing cycle, cumulatively reducing the policy rate by 225 basis points through March 2024 in response to a reduction of inflationary pressures. However, despite the swift decline in headline inflation, the risk of inflation resurgence has persisted due to strong domestic demand.

The CBA remains committed to its policy strategy, aimed at controlling demand, anchoring inflation expectations, and guiding inflation towards the CBA's 4 percent target in the medium term.

3. Inflation Outlook

In March 2024, the 12-month inflation rate stood at -1.2 percent, accelerating from -1.7 percent in the previous month. Declining prices of imported food continue to contribute significantly to deflationary pressures. However, inflation in non-regulated services and other goods with sticky prices remains relatively stable, at around 2.5–3.5 percent. Headline inflation is expected to gradually rise during 2024 as external deflationary pressures diminish. Easing of monetary policy will also contribute to guiding inflation back to the target in the medium term.

In view of remaining uncertainties related to the geopolitical situation, economic outlook and future inflationary developments, the CBA continues to closely monitor the global and domestic economic environment and stands ready to take adequate actions to ensure that the price stability objective of 4 percent inflation over the medium-term horizon is met.