INTERNATIONAL MONETARY FUND

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REPUBLIC OF ARMENIA

December 2024

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

In the context of the Fourth 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 December 16, 2024, following discussions that ended on October 1, 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 November 22, 2024.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Armenia.

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

PR24/477

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

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the fourth review under the Stand-By Arrangement (SBA) with Armenia, providing the country with access to SDR 18.4 million (about US$24.12 million).*
- *Armenia's economic outlook remains positive, with strong, albeit gradually moderating, growth projected at around 6 percent in 2024 and around 5 percent in 2025, alongside low inflation.*
- *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 – December 16, 2024: The Executive Board of the International Monetary Fund (IMF) completed the fourth review under the Stand-By Arrangement (SBA) with Armenia. The completion of the review enables access to SDR 18.4 million (about US$24.12 million), bringing total access to SDR 92.0 million (about US$120.59 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.

Armenia's economy continues to face a positive outlook, notwithstanding the multiple shocks in recent years. Supported by strong domestic demand, real GDP growth is projected to reach about 6 percent in 2024 and moderate to about 5 percent in 2025. Over the medium-term growth is projected to decelerate to around 4.5 percent, although an acceleration of structural reforms could raise growth potential. Inflation is projected to remain below the Central Bank of Armenia's target in the short term and rise gradually toward its target over the medium term. External and financial sector buffers remain strong.

The program is broadly on track. All quantitative performance criteria and indicative targets for end-June 2024 were met, although lower than expected inflation breached the lower-inner Monetary Policy Consultation Clause (MPCC) band. The authorities have adopted a 2025 budget with an overall fiscal deficit of 5.5 percent of GDP, in line with the program, to accommodate urgent spending needs and intend to resume fiscal consolidation in 2026. Progress on structural benchmarks (SB) continues, with two SBs implemented, one nearly completed, and two postponed to March 2025.

Following the Executive Board's discussion today, Mr. Bo Li, Deputy Managing Director and Acting Chair, made the following statement:

"Armenia's economic outlook is positive, with robust growth and low inflation. The program performance is strong, but sustained prudent policies and reform efforts remain critical to preserve buffers and build resilience in a still uncertain domestic and external environment.

"The 2025 budget appropriately balances preserving macroeconomic stability and addressing priority spending related to the integration of refugees and high security spending needs. Over the medium term, gradual fiscal consolidation will be critical to maintain fiscal sustainability. Planned measures include strengthening revenue mobilization, expenditure prioritization, and adoption of a medium-term expenditure framework. Progress on public financial management reforms is essential to reduce fiscal risks, especially those related to state-owned enterprises, public-private partnerships, and government guarantees.

"The monetary policy stance is appropriate, and further policy rate decisions should continue to be guided by the outlook for inflation and inflation expectations given the uncertain outlook. The CBA's growing credibility since the adoption of inflation targeting in 2006, strengthened operational independence, and upgrades to its monetary policy framework provide scope for lowering the inflation target within a well-coordinated and communicated strategy. The flexible exchange rate has served Armenia well in absorbing external shocks, while building reserve buffers.

"The banking system remains sound. The authorities continue to carefully monitor financial sector risks, particularly those originating from the real estate market, and recalibrate prudential tools as necessary. Efforts should focus on preserving capital buffers, enhancing supervisory powers and capacities, and strengthening crisis management, including through adoption of the new bank resolution law.

"Advancing structural reforms would support sustainable and inclusive growth. Continued efforts to boost labor market participation, especially among youth, women, and vulnerable groups are important. Reforms to diversify exports, improve the business environment, strengthen governance, and advance climate policy implementation are critical to enhance economic resilience and increase potential growth."

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Act.				Proj.			
National income and prices:									
Real GDP (percent change)	5.8	12.6	8.3	6.0	4.9	4.5	4.5	4.5	4.5
Final consumption expenditure, Contrib. to Growth	1.2	3.7	7.3	6.7	3.0	3.0	3.0	3.0	3.0
Gross fixed capital formation, Contrib. to Growth	4.2	3.0	2.1	2.3	2.1	2.0	2.0	2.0	2.0
Changes in inventories, Contrib. to Growth	0.0	-0.3	-0.9	-1.4	0.0	0.0	0.0	0.0	0.0
Net exports of goods and services, Contrib. to Growth	0.4	6.2	-0.2	-1.6	-0.1	-0.5	-0.5	-0.5	-0.5
Gross domestic product (in billions of drams)	6,992	8,501	9,453	10,161	11,015	11,971	13,010	14,139	15,367
Gross domestic product (in millions of U.S. dollars)	13,879	19,514	24,086	25,251	26,578	27,418	28,941	30,929	33,203
Gross domestic product per capita (in U.S. dollars)	4,685	6,661	8,126	8,518	8,965	9,247	9,760	10,430	11,196
CPI (period average; percent change)	7.2	8.7	2.0	0.2	3.1	4.0	4.0	4.0	4.0
CPI (end of period; percent change)	7.7	8.3	-0.6	1.0	3.9	4.0	4.0	4.0	4.0
GDP deflator (percent change)	6.9	8.0	2.7	1.4	3.3	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	22.4	21.3	20.1	19.9	19.7	19.8	19.9	19.9
National savings	19.5	22.7	19.0	15.5	15.4	15.1	15.0	15.1	15.1
Money and credit (end of period)									
Reserve money (percent change)	17.1	5.0	-4.0	9.4	9.0	8.7	8.7	8.7	8.7
Broad money (percent change)	13.1	16.1	17.4	14.7	10.7	9.3	9.3	9.3	9.3
Private sector credit growth (percent change)	-3.9	4.5	18.4	15.4	11.7	11.1	11.1	11.1	11.1
Central government operations (in percent of GDP)									
Revenue and grants	24.1	24.3	25.0	25.2	25.3	25.9	25.9	25.5	25.4
Of which: tax revenue	22.1	21.9	22.5	22.9	23.2	23.4	23.5	23.5	23.5
Expenditure	28.7	26.4	27.0	29.9	30.8	30.4	30.2	29.2	29.0
Overall balance on a cash basis	-4.6	-2.1	-2.0	-4.8	-5.5	-4.5	-4.3	-3.8	-3.5
Public and publicly-guaranteed (PPG) debt (in percent of GDP)	63.4	49.2	50.7	52.3	55.6	56.3	57.1	57.1	56.4
Central Government's PPG debt (in percent of GDP)	60.2	46.7	48.4	49.7	53.3	54.5	55.6	55.5	55.1
Share of foreign currency Central Government PPG debt (in percent)	71.2	62.1	54.1	48.5	49.0	48.3	47.6	46.8	46.0
External sector									
Exports of goods and services (in millions of U.S. dollars)	5,040	10,118	14,338	17,435	12,213	12,488	12,402	12,782	13,324
Imports of goods and services (in millions of U.S. dollars)	-6,155	-10,265	-14,532	-18,083	-13,216	-13,620	-13,619	-14,110	-14,779
Exports of goods and services (percent change)	30.7	100.8	41.7	21.6	-30.0	2.3	-0.7	3.1	4.2
Imports of goods and services (percent change)	20.3	66.8	41.6	24.4	-26.9	3.1	0.0	3.6	4.7
Current account balance (in percent of GDP)	-3.5	0.3	-2.3	-4.5	-4.5	-4.9	-4.8	-4.8	-4.8
FDI (net, in millions of U.S. dollars)	342	926	527	323	437	454	468	483	507
Gross international reserves (in millions of U.S. dollars)	3,230	4,112	3,607	3,552	3,336	3,354	3,443	3,540	3,737
Import cover 1/	3.8	3.4	2.4	2.9	2.9	2.9	2.9	2.9	2.9
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/ Gross international reserves in months of next year's imports of goods and services, including the SDR holdings.

INTERNATIONAL MONETARY FUND

REPUBLIC OF ARMENIA

November 22, 2024

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

EXECUTIVE SUMMARY

Context. Economic activity remains strong but moderating as transitory trade, remittances, and capital flows peter out. The outlook is positive, with growth expected to reach 6.0 percent in 2024 and to converge gradually to its long-term rate. Inflation has picked up very slowly and is expected to remain below the CBA's inflation target in the short term, weighed down by low food and energy inflation, dram appreciation, and the lagged effect of tight monetary policy. Geopolitical tensions, a slowdown in main trading partners, and a possible reversal of capital flows remain the main risks to the outlook.

The SBA-supported program is broadly on track. All quantitative performance criteria (QPCs) and indicative targets (ITs) for end-June were met. Low inflation breached the lower-inner MPCC band, triggering a consultation with staff during the mission. Progress on structural benchmarks (SB) continues, with two SBs implemented, one nearly completed, and two postponed to March 2025.

Policy priorities. Continued prudent policies and steadfast implementation of structural reforms remain key priorities under the program. Fiscal policy should balance the need to support national spending priorities while preserving macro-fiscal stability. The CBA's future rate decisions should remain dependent on the evolution of inflation and inflation expectations, given the uncertain outlook. Structural reforms should prioritize revenue mobilization, spending efficiency, public investment and fiscal risk management, employment creation, export diversification, enhancing the supervisory frameworks, and strengthening governance and reducing corruption vulnerabilities.

Fourth review. Given the authorities' strong commitment to the program's objectives, staff supports their request for completion of the fourth review, 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 September 18–October 1, 2024, in Yerevan. The team comprised I. Petrova (Head); M. Al Taj, N. Belhocine, and H. Fuje (MCD); Y. Hashimoto, L. O'Sullivan (SPR), J. Bolzani (LEG), U. Rawat (Resident Representative), M. Aleksanyan, V. Janvelyan, and L. Karapetyan (IMF Office). M. Atamanchuk (MCD), V. Balasundharam (FAD), A. Carvalho (MCM), and A. Murr (LEG) joined meetings virtually. L. Dresse and D. Milutinovic (OED) attended some meetings. 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 a positive external backdrop. While the influx of foreign exchange, migrants, and businesses following the onset of Russia's war in Ukraine has moderated over the past year, economic activity remains robust. Inflation, which peaked in the second half of 2022 and early 2023, 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.

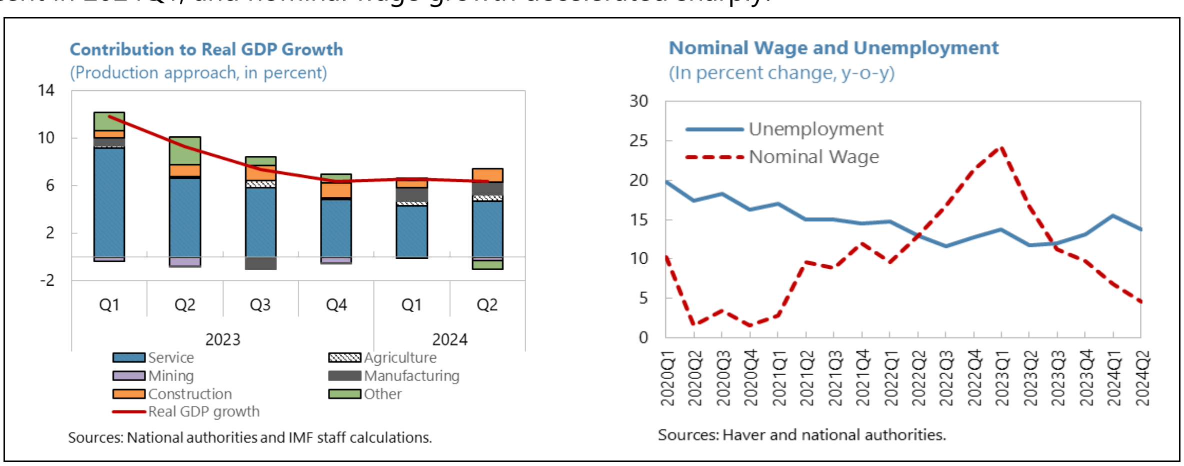
2. The geopolitical context, however, remains challenging. Peace discussions with Azerbaijan to reach understandings over border delineation and territorial control have continued, but progress has been limited so far, and important security issues remain unresolved. The authorities remain committed to continuing efforts to normalize relations with Azerbaijan and averting further conflict between the two countries, as well as to improving diplomatic and economic ties with Türkiye.

3. The three-year Stand-By Arrangement (SBA) is broadly on track. The SBA, approved by the IMF Executive Board in December 2022, has helped secure policy continuity, strengthen macroeconomic, financial, and fiscal stability, and support Armenia's reform efforts. The authorities continue treating the SBA as precautionary and are advancing critical structural reforms under the program despite a challenging context (**Letter of Intent**).

B. Recent Economic Developments

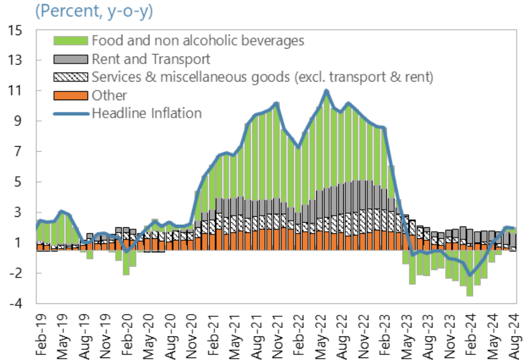
4. The exceptionally strong economic growth in 2022–23 has decelerated, as transitory factors petered out (Figure 1)**.** After growing by an average of 10 percent in 2022–23, driven by strong domestic consumption and private investment and supported by construction and services, real GDP growth slowed to 6.5 percent in 2024H1, as trade and IT services moderated.

5. Labor market pressures have started to ease. Amid large migrant inflows during 2022–23, labor force reached a peak in 2023, and labor force participation recovered from its post-pandemic low. With high labor supply and slowing growth momentum, the unemployment rate rose somewhat to 15.5 percent in 2024Q1, and nominal wage growth decelerated sharply.



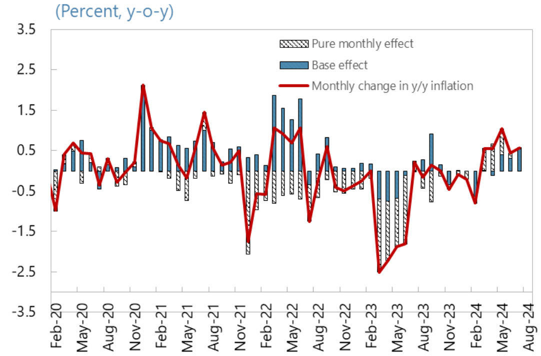
6. Inflation remains subdued and well below the CBA's 4-percent target. Headline inflation rose to 0.6 percent y/y in October, up from its lowest point in February of -1.7 percent, mainly driven by base effects, receding food price deflation and higher energy costs. Since June 2023, the CBA has reduced its policy rate by a cumulative 350 basis points bringing it to 7.25 percent as of October 2024, citing abating external commodity price pressures, lower economic activity in main trading partners, and slower wage growth.

Contributions to Inflation
(Percent, y-o-y)



Source: Haver.

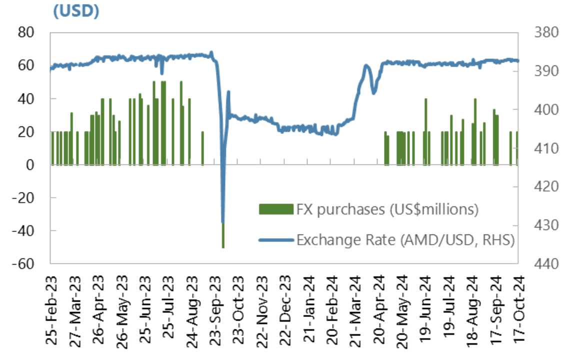
Decomposition of the Monthly Changes in Inflation
(Percent, y-o-y)



Sources: Haver and IMF staff calculations.

7. A moderate current account deficit has been financed by steady capital inflows. Recent trade data has been affected by a number of transitory factors, including the value added of transit trade, and is subject to significant revisions. Nonetheless, preliminary data shows that both imports and exports—of mainly mining products—have more than doubled in recent quarters, imports have outpaced exports, leading to a current account deficit of 2.2 percent of GDP in the 12 months to end-June 2024. (Figure 2). Steady commercial bank capital inflows have allowed the CBA to purchase about US$700 million, sufficient to cover external public debt service in 2024. Gross international reserves stood at US$3.5 billion (107 percent of the ARA metric) in October 2024.

FX Intervention and Exchange Rate
(USD)



Sources: Haver and national authorities.

8. The budget deficit is broadly on track, with both spending execution and tax revenue collection below expectations. The overall fiscal deficit reached 0.8 percent of GDP through September 2024. Lower than anticipated revenues of 0.6 percent of GDP were driven by a shortfall in excise and VAT collections, including due to stronger imports of green cars exempt from VAT and import duty, lower vehicle re-exports, and stockpiling of excisable goods. Current spending remained contained, reflecting careful execution and lower than projected inflation, dram appreciation, and procurement delays. Capital spending was also 0.6 percent of GDP below projections, despite some improvement in foreign project implementation.

9. Financial system indicators remain healthy. At around 20 percent in September 2024, the banks' capital adequacy ratio (CAR) has been well above the current minimum requirement (Figure 5, Table 5) of 16.5 percent for systemic banks and 15 percent for non-systemic banks. Liquidity remains adequate and above prudential requirements. NPLs are low, at 1.2 percent in September, mainly due to loan write-offs in March. High net interest income increased banks' profitability by 21 percent y/y in 2024H1. Loan growth has been strong, reaching around 21 percent y/y in September 2024, supported by construction, consumer, and mortgage loans.

C. Outlook and Risks

10. Growth is projected to remain strong in 2024 and 2025. It is expected to reach 6.0 percent in 2024, driven by robust domestic demand, including the ongoing acceleration of public investment. With a slowdown of goods' exports and tourism and a decline in financial inflows, growth is projected to decelerate to 4.9 percent in 2025. Gradual fiscal consolidation and a normalization of credit growth are expected to steer economic activity in the medium term, with growth converging to its potential of 4.5 percent.

11. Inflation is expected to remain below the CBA's target in the short term. Rising transportation costs and above potential growth are expected to exert inflationary pressures. However, lower expected global food prices will keep inflation around 1.0 percent by end-2024 and below 4.0 percent throughout 2025. Over the medium term, inflation is expected to rise gradually given monetary easing and reach the CBA's target by early-2026. Significant volatility in international food and commodity prices and their large impact on Armenia's CPI suggest that inflation will remain uncertain but subdued.

12. The current account deficit is projected to widen toward its norm. The expected deceleration in external demand, lower remittances inflows, and robust domestic demand, will increase the current account deficit to around 4.5 percent of GDP in 2024 and 2025. Armenia's external position—assessed to be moderately weaker than the level implied by fundamentals and desirable policies in 2023 (Annex I)—is projected to adjust, as temporary factors taper off, and the current account converges to its norm in the medium term. Gross international reserves are projected to stabilize around $3.5 billion (107 percent of the ARA metric) by end-2024 but remain heavily dependent on external public debt service over the medium-term.

13. A challenging and uncertain environment poses sizeable risks to the outlook. Geopolitical tensions and related political instability could lead to FX volatility. This could be exacerbated if accompanied by a slowdown in major trading partners, including Russia, or if tight global financial conditions last longer (Annex II). A resurgence in global food and energy prices, due to supply-chain disruptions or lower oil production, could lead to a stronger pickup in inflation, especially if accompanied by a currency depreciation. Armenia may need to draw on Fund resources in the event of an adverse shock (Annex III), while the authorities' commitment to prudent policies will help preserve fiscal and external sustainability. On the upside, stronger domestic or export demand, faster implementation of structural reforms under the SBA and the 2021–26 Government Program, a potential peace agreement with Azerbaijan, and normalization of trade relations with Türkiye could support higher growth in the medium term.

D. Program Performance

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

- *All end-June quantitative performance criteria (QPC) and indicative targets (IT) were met*. The QPC targets for net international reserves and the program fiscal balance were met with a comfortable margin (MEFP, Table 1). Preliminary data suggest that net international reserves and the program fiscal balance were within the indicative targets for end-September.

- *The end-June headline inflation rate of 0.8 percent breached the lower inner band of the Monetary Policy Consultation Clause (MPCC)*. As inflation remained significantly below target in subsequent months, following persistently lower food prices, it also breached the lower outer band of the MPCC in September.

- *Good progress was made on the implementation of structural benchmarks (SB), albeit with delays* (MEFP, Table 2a). The authorities submitted to Parliament the Tax Code amendments empowering the SRC to effectively audit all natural persons and use third-party data sources and indirect tax assessment methods, as well as the draft amendments of the Budget System Law clarifying the definition of public investment. The employment strategy has required further inter-governmental discussions to ensure its accurate costing and is expected to be approved by Cabinet shortly. A draft bank resolution law has been prepared, but completion of Cabinet discussions and public consultation will delay its submission until March 2025. The authorities have prepared a comprehensive diagnostic study and a detailed action plan to support the export strategy but will require additional time to prioritize key policies.

POLICY DISCUSSIONS

Discussions focused on the outlook and risks, the 2025 budget and appropriate macroeconomic policy mix, and the implementation of program commitments. Staff also discussed progress in reforms to improve public financial management and public administration, and financial sector stability, and Armenia's medium- and long-term growth prospects.

A. Maintaining Fiscal Prudence Amid Increasing Expenditure Needs

15. The 2024 fiscal deficit is projected to be in line with the program targets. While spending on national security, social protection and integration of ethnic Armenian refugees remains strong, expenditures on goods and services and the execution of investment projects are likely to remain slow. With a projected tax revenue shortfall of about 0.5 percentage points of GDP relative to the third review projections, the authorities intend to achieve the program's fiscal deficit target by prioritizing and holding back some planned capital spending. Still capital spending will be on a strong upward trend from previous years.

16. The 2025 fiscal deficit target is adjusted to accommodate urgent spending needs. The budget will continue to prioritize spending on national security and integration of refugees, including support for social assistance and housing, pensions, education, health, and regional development. Spending on goods and services will be rationalized further, and the piloting of the Universal Health Insurance (UHI) and the new family benefits system will be delayed. In line with these priorities, the authorities have committed to adopt a 2025 budget with an overall fiscal deficit of 5.5 percent of GDP **(prior action, MEFP ¶4)**, a 0.9 percentage point widening relative to the third review deficit target. The authorities are committed to saving any revenue windfall and maintaining fiscal and external sustainability.

17. The authorities are committed to resuming fiscal consolidation from 2026. With debt stabilizing primary balance around zero, the fiscal deficit will need to decline by about 2–2 ½ percentage points of GDP in the medium term to keep debt at moderate levels, which has served Armenia well. To this end, the authorities have committed to approving a 2026–28 Medium-Term Expenditure Framework (MTEF) with an overall fiscal deficit target of 4.5 percent of GDP in 2026 and declining further in 2027–28 **(May 2025 SB, MEFP ¶5)**.

18. Achieving the planned fiscal consolidation will require careful spending reprioritization over the medium-term. Armenia faces significant social and development needs, which are likely to create spending pressures and need to be carefully designed, costed, and phased in future MTEFs.

- *Housing support*. The authorities have launched a low-cost housing support program for refugees who opt for Armenian citizenship. The uptake of the program is expected to pick-up in 2026, with an estimated cumulative cost of 1.5 percent of GDP by 2027.

- *Universal Health Insurance*. The UHI is now expected to be piloted in 2026 with full implementation by 2028, pending consensus on costing, benefit package, and financing modalities. A new free referral system will gauge healthcare demand and readiness of the UHI system, while the fully-fledged UHI should be phased in with adequate financing to ensure long-term sustainability.

19. At the same time, there is scope to rationalize inefficient spending. Efficiency gains in infrastructure and social spending are possible without affecting outcomes and could be used to support long-term spending reforms.[1] For example, a reallocation to higher quality projects could be done through public investment management (PIM) reforms. Furthermore, the system of investment incentives needs to be reviewed and rationalized by eliminating incentives that do not address a market failure and have higher economic cost than benefit. More broadly, the authorities have committed to conduct an expenditure review, with IMF CD support, targeting to identify a menu of specific rationalization measures totaling 1.0 percent of GDP in primary current spending **(SB July 2025, MEFP ¶5)** that can be used to ensure a realistic budget deficit in 2026.

[1] See World Bank (2023), Armenia Public Expenditure Review: Improving Spending Efficiency, which focuses on reforms that would ensure more efficient capital and social spending.

20. Revenue mobilization is critical to support the medium-term fiscal effort and Armenia's development needs.

- *Tax policy reforms*. Already approved excise and environmental tax rate increases and higher turnover tax rates are a good first step in mobilizing new tax revenues of at least 0.75 percent of GDP cumulatively by 2026 (December 2024 SB). Replacing the environmental tax on vehicle imports and tax exemptions for EVs with a feebate system and further rationalizing excise tax expenditures could also increase tax revenues in the medium-term. Other tax policy options, such as rationalizing VAT expenditures and redesigning the income tax system, could yield significant gains but require a long-term planning and communication strategy to ensure broad public support for the reforms. Tax incentives introduced in recent years have been fiscally costly and inefficient.[2] In order to prevent further tax base contraction, the authorities have committed to providing a justification, a comprehensive cost assessment, and a set of tax policy measures, as necessary, to prevent potential revenue loss from any new planned tax incentives (**Continuous SB, MEFP ¶6, TMU ¶17**).

Armenia: Potential Revenue Gains from Further Tax Policy Reforms

Reduce the VAT threshold and rationalize VAT expenditures, including for insurance, gambling, and financial services.	Up to 3.3 percent of GDP
Increase excises on tobacco, alcohol, fuels, and replace the EV exemptions and environmental tax on vehicles with a feebate system.	Up to 1.9 percent of GDP
Rationalize income tax expenditures for the catering industry, employees of IT startups, agricultural producers.	Up to 0.5 percent of GDP

Source: IMF Technical Report on Review of Tax Expenditures in Armenia (July 2023) and the draft Review of Road Transport Taxation (October 2024). Yields are not included in staff's baseline projection.

- *Revenue administration.* The authorities have made significant progress toward estimating tax gaps with IMF CD support. The upcoming tax code amendments empowering the SRC to audit all natural persons will ensure effective implementation of the universal PIT declaration and will help narrow the PIT compliance gap. A comprehensive assessment of SRC's compliance tools would be crucial to improve their effectiveness and further reduce the tax gaps. To this end, the authorities' efforts to strengthen auditing processes, customs administration, and enforcement of tax liabilities could bolster revenue mobilization in the near-to-medium term if properly implemented.

21. Efforts are also underway to further strengthen the fiscal framework and manage risks.

- *Enhancing the fiscal framework.* The authorities are making progress toward multi-year budgeting and improvements to baseline costing. Further broader reassessment and streamlining of budget

[2] For example, the current VAT and import duty exemptions for EVs, introduced in 2019 and 2020 and set to expire in January 2026, while effective in boosting EV imports, are regressive and costing an estimated 0.7 percent of GDP in forgone revenue in 2023. The mortgage interest tax credit, introduced in 2014 and currently being phased out, is estimated to cost around 0.7 percent of GDP in 2024.

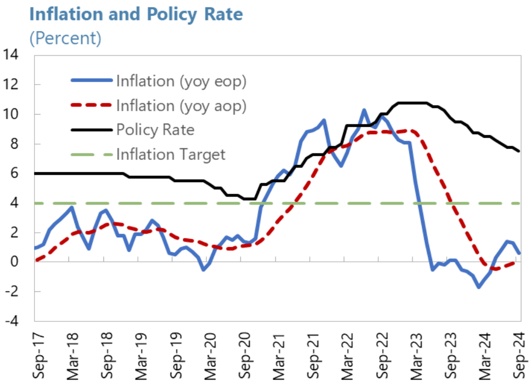
processes and the MTEF to improve their strategic value and credibility and strengthen effective project implementation is also being undertaken with IMF CD support. The reform should ensure that the MTEF provides sufficient guidance for budget preparation, sends a strong signal about the policies needed to support the medium-term fiscal path, and—along with the fiscal rules—serves as a key anchor to fiscal sustainability.

- *Public investment management*. The clarification of the definition of public investment projects in the Budget System Law is an important step towards developing a cohesive PIM framework. The upcoming transfer of the PIM function from the Ministry of Economy (MoE) to the Ministry of Finance (MoF)—in line with MoF's broader functional reorganization—should closely integrate the public investment project assessment, approval, and selection with the budget process, while preserving existing PIM capacity. Ideally, this will entail consolidation of PIM into the budgeting function, while ringfencing internal audit and fiscal risk functions to prevent conflict of interest. Procurement and contract management should remain line ministries' responsibility subject to MOF's central oversight.

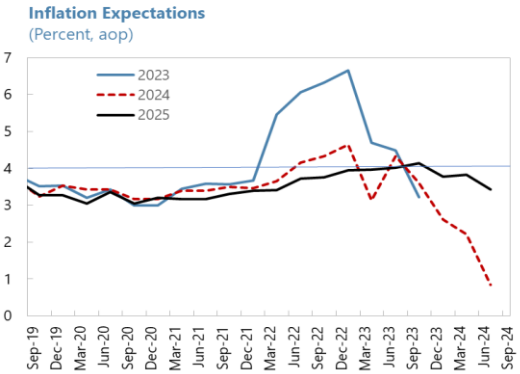
- *Managing fiscal risks.* Reflecting challenges in strengthening Armenia National Interests Fund's (ANIF) governance in line with the ANIF decree, the authorities dissolved the entity in August 2024, mitigating a significant fiscal risk. To further reduce SOE-related risks, the authorities are working towards adopting a SOE ownership policy defining the rationale for owning SOEs and the government's role in their oversight. Efforts also need to continue to contain risks from government lending and guarantees and from PPP-related liabilities, including by establishing an effective legal limit on overall PPP exposure and greater contract transparency.

B. Treading Carefully with Monetary Policy Easing While Ensuring Financial Sector Resilience

22. The CBA should continue to carefully evaluate inflation dynamics. Headline inflation is low, while inflation expectations have remained anchored. To the extent that inflation dynamics remain well below target, the CBA's gradual easing remains appropriate. Further policy actions should continue to be guided by the outlook for domestic demand, the evolution of service price inflation, and the behavior of inflation expectations. The CBA should continue to seek opportunities to bolster FX reserves through purchases when conditions are favorable, while FX sales should remain confined to addressing disorderly market conditions.



Sources: Haver and IMF staff calculations

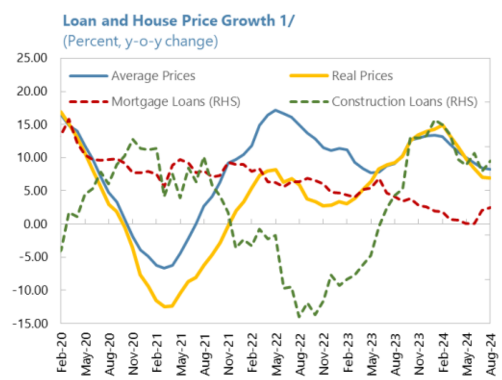


Source: Consensus Economics Forecasts.

23. The CBA continues to make advances in improving its monetary policy framework and transparency. The risk-based approach to monetary policy decision making has been received well so far, benefitting from the ongoing policy easing, although a full business cycle would be needed to test its robustness and assess its effectiveness. The CBA continues to enhance its macro modeling capacity and is launching a new website to showcase recently introduced enhancements, such as publishing board member statements and voting records concurrently with monetary policy decisions, daily FX intervention data, explanations of regulatory changes, and media access rules. The CBA has also recently announced its intention to lower the inflation target to 3 percent. While the CBA's growing credibility since the adoption of inflation targeting in 2006, strengthened operational independence, and upgrades to its monetary policy framework provide scope for such a change, it should be part of a well-coordinated strategy, including a clear public communication about its rationale and economic impact.

24. The CBA remains committed to monitoring financial stability risks.

- *Housing market risks*. Armenia's house prices have increased by an annual average of 11 percent over the last three years,[3] driven by strong housing demand, buoyant mortgage and construction lending. The CBA has appropriately increased the countercyclical capital buffer by 0.25 percentage point to 1.75 percent of risk-weighted assets (effective May 1, 2025) and is enhancing credit risk assessment by refining its macro-financial stress testing framework, gathering more granular data from property developers, and focusing efforts on microprudential risk assessment. To guard against a weakening of financial stability indicators from strong credit growth, further options to stem lending risks and strengthen



Sources: Haver, ARMSTAT and IMF staff calculations.
1/ Average prices of apartments in Yerevan.

[3] See Central Bank of Armenia (2024), Financial Stability Report 2023.

banking system resilience include increasing risk weights for loans to the construction sector and borrower based macro-prudential measures (Annex V).

- *Other financial stability risks*. Stress tests show that the banking system has sufficient capital to withstand shocks.[4] Risks from FX mismatches appear low, as FX-denominated loans have declined after the ban on FX mortgages for residents while net FX positions remain small, positive, and relatively stable. Banks' high LCR ratios and ample FX liquidity mitigate the risk of a potential deposit reversal. It remains crucial to monitor and mitigate cyber risks. With the aim of assessing interest rate risk in the banking book (IRRBB), the CBA has completed the assessment for some banks and plans to finalize the assessments for the remaining banks by end of 2024.

25. Implementation of Pillar 2 is progressing. Following the communication of supervisory expectations on banks' internal capital adequacy assessment process (ICAAP), substantial enhancements have been observed in the latest ICAAP reports, including on the banks' ranking of significant risks and accounting for macroeconomic risks in their internal stress tests. The supervisory review process of the ICAAP is prioritizing systemic banks' reports, and supervisors are in the process of providing feedback to banks. The implementation of the Supervisory Review and Evaluation Process (SREP) is progressing, with pilot evaluations completed for all systemic banks and evaluations for other banks planned for 2025.

26. The draft resolution law is yet to be finalized. Significant progress has been made in preparing the law to align it with the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions with support from the IMF (proposed to be rescheduled to **March 2025 SB, MEFP ¶11**). However, discussions with the MoF are ongoing to clarify the government's role in the resolution process, its last-resort responsibility for resolution funding, and the appropriate level of information sharing (Annex VI). This is being done while balancing fiscal risks and preserving the CBA's independence as the supervisory and resolution authority.

C. Boosting Potential Growth

27. The authorities remain committed to completing planned structural reforms:

- **Export strategy.** A draft national export strategy (NES), based on the authorities' technical studies, identified key bottlenecks to export growth and diversification, which include weak logistics, fragmented institutional framework for export promotion, burdensome regulations, and lack of compliance with international standards. To address these challenges, the authorities have proposed a five-pillar framework which needs to be translated into specific policies and tools to fully harness Armenia's comparative advantages. Feasible measures that are likely to have a high return include enhancing institutions, market access, product quality, and logistics (Annex VII). The authorities will adopt the final strategy along with a well-prioritized roadmap to ensure its successful implementation (proposed to be rescheduled to **March 2025 SB, MEFP ¶12**).

[4] See Central Bank of Armenia (2024), Financial Stability Report 2023.

- **Employment strategy.** The authorities are finalizing a comprehensive employment strategy that seeks to improve employability and job opportunities for youth, women, and vulnerable groups. Measures for building skills and improving connectivity, and other targeted programs for these groups are well designed. However, other measures, such as industrial development through the creation of special economic zones (SEZs), go beyond job creation. These measures and any other potentially ineffective tax incentives have proven to have weak impact on employment and significant negative impact on government revenue and should be avoided. Cabinet is expected to adopt the employment strategy shortly upon a comprehensive costing by the MoF. A pilot approach to the employment strategy implementation will test the efficacy of the proposed labor policy measures at a small-scale before ratcheting it up. To this end, the authorities have committed to completing an interim report on the effectiveness and costs of the ongoing pilot program for skills development and job recruitment of refugees (**June 2025 SB, MEFP ¶12**).

- **Business environment.** The recent adoption of a revised corporate governance code is an important step toward improving corporate transparency and accountability. The authorities' efforts to develop institutional arrangements for its enforcement should focus on publicly traded companies, companies with a large footprint in the economy (in employment and value added), and SOEs. The authorities have also made progress in drafting legislation to upgrade the insolvency framework, aiming to strengthen the protection of creditor rights in line with international standards. Finally, the MoE's effort to streamline existing investment incentives through cost-benefit analysis should ensure that any remaining incentives continue to serve a justifiable objective—e.g., address market failure—are temporary and effectively implemented.

- **Governance.** Armenia's governance framework is hampered by weaknesses in the procurement system, which are also a main obstacle to better public investment project implementation and infrastructure development. The authorities initiated an IFI-supported review of the legal, institutional and policy framework of the procurement process in line the Methodology for Assessing Procurement Systems (MAPS). Alongside, they are amending the public procurement law to make the process more transparent and competitive, and to align processes for state-funded and PPP projects.

- **Climate change.** A Country Climate and Development Report (CCDR) was recently completed in support of the authorities' effort to develop a comprehensive climate strategy. Armenia is on track to achieve its nationally determined contributions' (NDC) target by 2030. However, faster and more ambitious climate policy implementation would be needed to achieve Armenia's 2050 NDC target. Climate policies should focus on reducing carbon emissions, transitioning to competitive energy markets, enhancing energy efficiency, and encouraging low-carbon investments and green growth. A resilient green transition will involve substantial investments, requiring significant private capital mobilization.[5]

- **AML/CFT.** Armenia's ongoing update of the assessment of money laundering and terrorism financing (ML/TF) risks will enhance the understanding of the main and emerging ML/TF threats

[5] See World Bank (2024), Armenia - Country Climate and Development Report (CCDR).

to the banking system, including cross-border threats. The Financial Monitoring Centre's (FMC) analysis of cross-border financial flows should be used to update the list of high-risk jurisdictions and determine appropriate measures regarding transactions with them. Efforts also need to continue to verify the accuracy of information provided by legal entities to the beneficial ownership registry.

PROGRAM MODALITIES

28. Staff proposes to update program targets (MEFP Table 1). 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. The QPC on the ceiling on budget domestic lending is proposed to be raised marginally from AMD10 billion to AMD10.5 billion to ensure financing for the extension of the operating life of the Metsamor Nuclear Power, which was previously financed with external loans. Staff proposes to modify the end-March 2025 ITs and set QPCs for end-June 2025 and ITs for end-September 2025.

29. Staff also proposes revisions to the structural conditionality (MEFP Table 2b). The September 2024 SB on adopting an export strategy is proposed to be rescheduled to March 2025. The strategy remains under preparation with USAID support as the authorities are seeking a more pragmatic approach to policy prioritization, given the large scope of identified export bottlenecks. The June 2024 SB on bank resolution requires further discussions between the CBA and the Ministry of Finance on information sharing modalities and the government's role in decision making and resolution funding and is also proposed to be rescheduled for March 2025. Newly proposed structural benchmarks seek to limit the negative revenue impact of any new planned tax incentives, as well as to assess the effectiveness and costs of the ongoing pilot program for skills development and labor market recruitment.

30. The program is fully financed under the baseline and Armenia's capacity to repay the Fund is adequate. The BoP financing gap for the next 12 months of the arrangement is closed, reflecting financing disbursed and in the pipeline (Table 7). Armenia's capacity to repay the Fund is supported by (i) the downward trajectory of both public and external debt over the medium term; (ii) the authorities' proven ability to follow through on their reform program; and (iii) their long track-record of sound macroeconomic management. The ratios of Fund credit to reserves and exports are estimated to reach their peaks between 2024 and 2025 at 9.4 percent and 2.8 percent, respectively, while IMF payment obligation ratios are projected to be at most 5.6 percent of gross reserves and 1.7 percent of exports. Firm commitments are in place over the 12 months following the completion of the review.

31. The CBA continues to work towards addressing 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.

The CBA has taken steps, with support from IMF CD, to advance the implementation of the safeguards' recommendations, particularly in relation to governance modalities, and institution-wide risk management. The CBA also continues to work towards feasible steps to address recommendations related to development lending to banks and subsidiaries of the central bank. Furthermore, the CBA has completed a self-review of its current transparency practices against the IMF's Central Bank Transparency Code using the dedicated IMF self-review template and will take steps to align them with international best practices.

STAFF APPRAISAL

32. Armenia has navigated effectively multiple challenges in recent years, reflecting strong policy and reform implementation, and the authorities remain committed to program objectives. The economic outlook is positive, with robust but gradually decelerating growth. However, risks to this outlook are elevated including due to geopolitical tensions and potential slowdown in major trading partners. The implementation of prudent policies and reforms remains critical to safeguard economic buffers and ensure economic resilience in the face of a still highly uncertain outlook and rising financing needs.

33. The 2025 budget aims to accommodate urgent priority spending needs while maintaining a moderate debt level. High security and social spending pressures necessitate a higher fiscal deficit temporarily, while other spending remains curtailed. Nonetheless, if growth and revenues are stronger than projected, the authorities should save the revenue windfall to build stronger fiscal buffers and insure against potential future shocks.

34. A medium-term fiscal consolidation will be critical to maintain fiscal sustainability. The authorities' plan to frontload the consolidation will be supported by the adoption of a MTEF with a declining medium-term fiscal path, further revenue mobilization measures, and expenditure prioritization under the expenditure review. The completion of ongoing public financial management reforms is also essential to reduce fiscal risks, especially those related to SOEs, PPPs, and government guarantees.

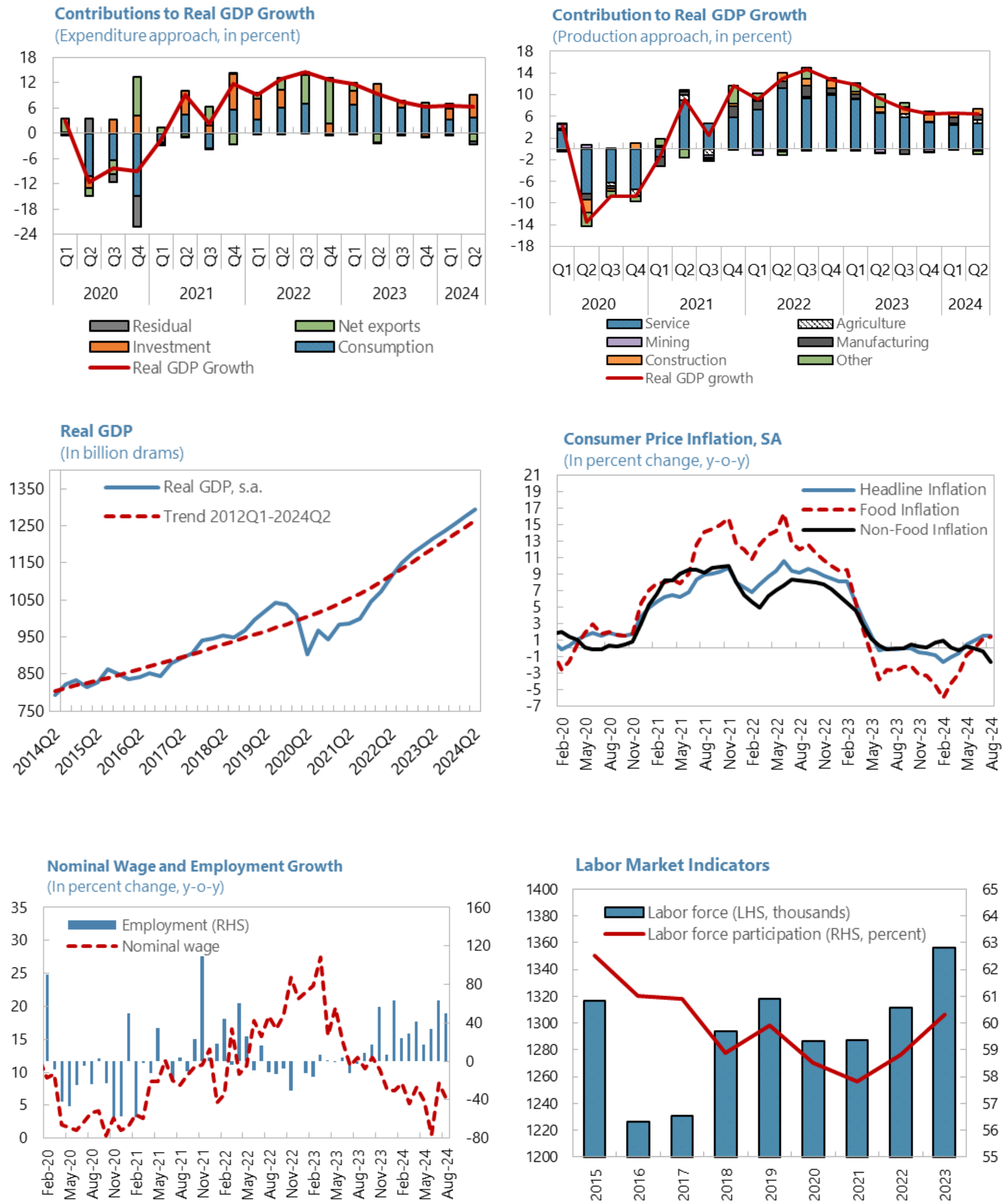
35. The CBA's gradual easing is appropriate. Further decreases in policy rates should continue to be guided by the outlook for inflation and inflation expectations. The exchange rate should serve as a key shock absorber, and international reserve accumulation should take place as conditions allow to accumulate foreign exchange buffers and support the government's external debt repayments and import needs. The CBA's transparency efforts, including publishing FX interventions, help strengthen the monetary policy framework.

36. Further strengthening the CBA's prudential and supervisory framework will help stem financial sector risks. Despite healthy banking sector buffers, the CBA should continue to carefully monitor financial sector risks, particularly those coming from the real estate market and recalibrate prudential tools as necessary. This involves further refining the macro-financial stress testing exercise and loan risk weights and collecting and analyzing more granular information about property developers and projects. Medium-term reform efforts should concentrate on preserving capital buffers, bolstering supervisory powers, and improving crisis management, particularly through the adoption and implementation of the new bank resolution law.

37. Structural reforms should prioritize improving the business environment, fostering productivity, and securing better employment outcomes to support long-term growth. This involves developing stronger trade links, increasing export complexity, and boosting labor force participation. Greater corporate transparency and improvements in the insolvency framework are crucial for better access to finance. Comprehensive governance reforms, including through the effectiveness of overall public administration and procurement, are vital for enhancing Armenia's business environment and attracting both domestic and foreign investment.

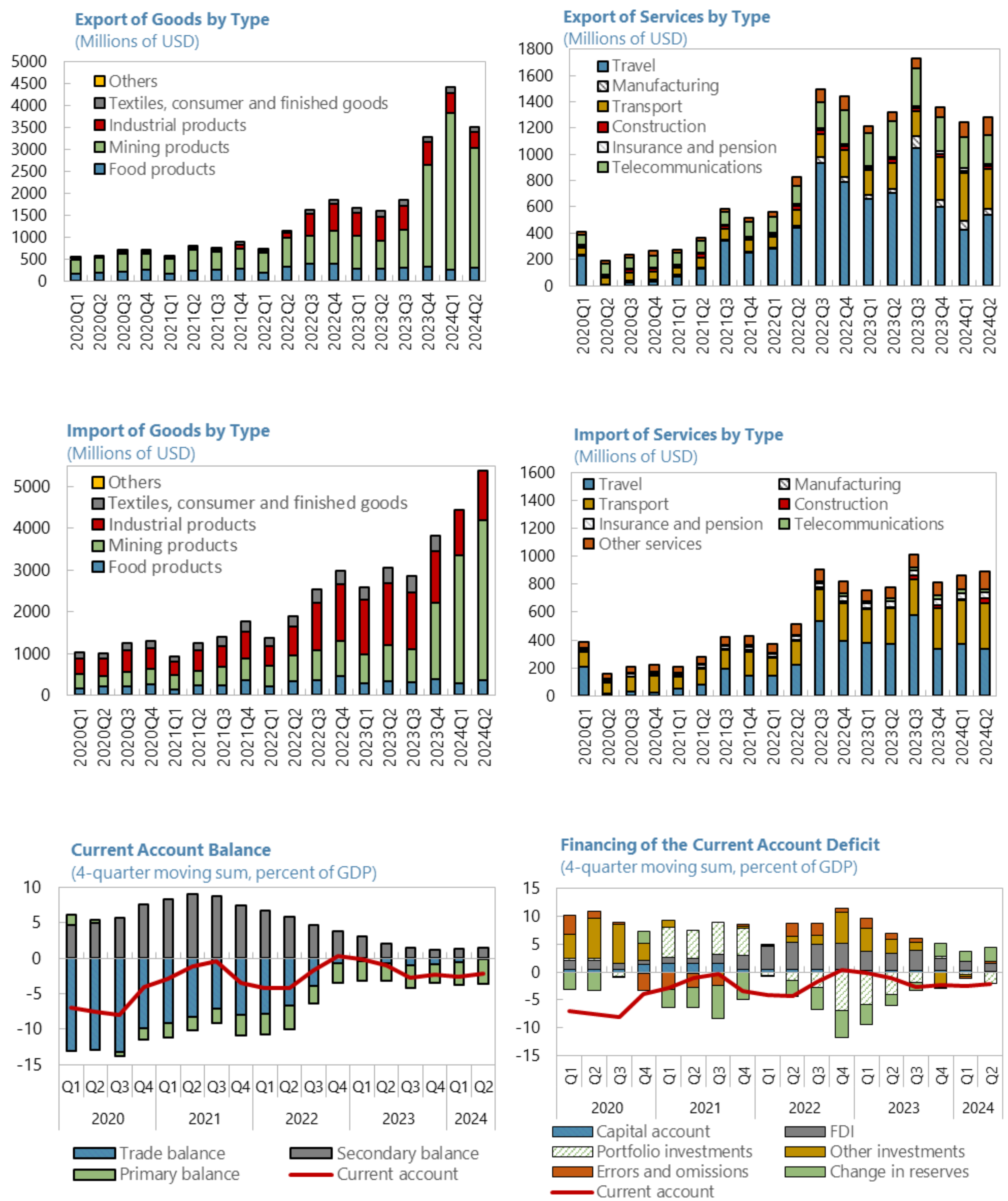
38. Staff supports the authorities' request for completion of the fourth review, given their strong performance and program ownership. Staff supports the authorities' request for modifications of QPC, SBs, and MPCC. Upon completion of the review, an additional SDR 18.4 million (about $24.5 million) would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

Figure 1. Armenia: Real Sector Developments



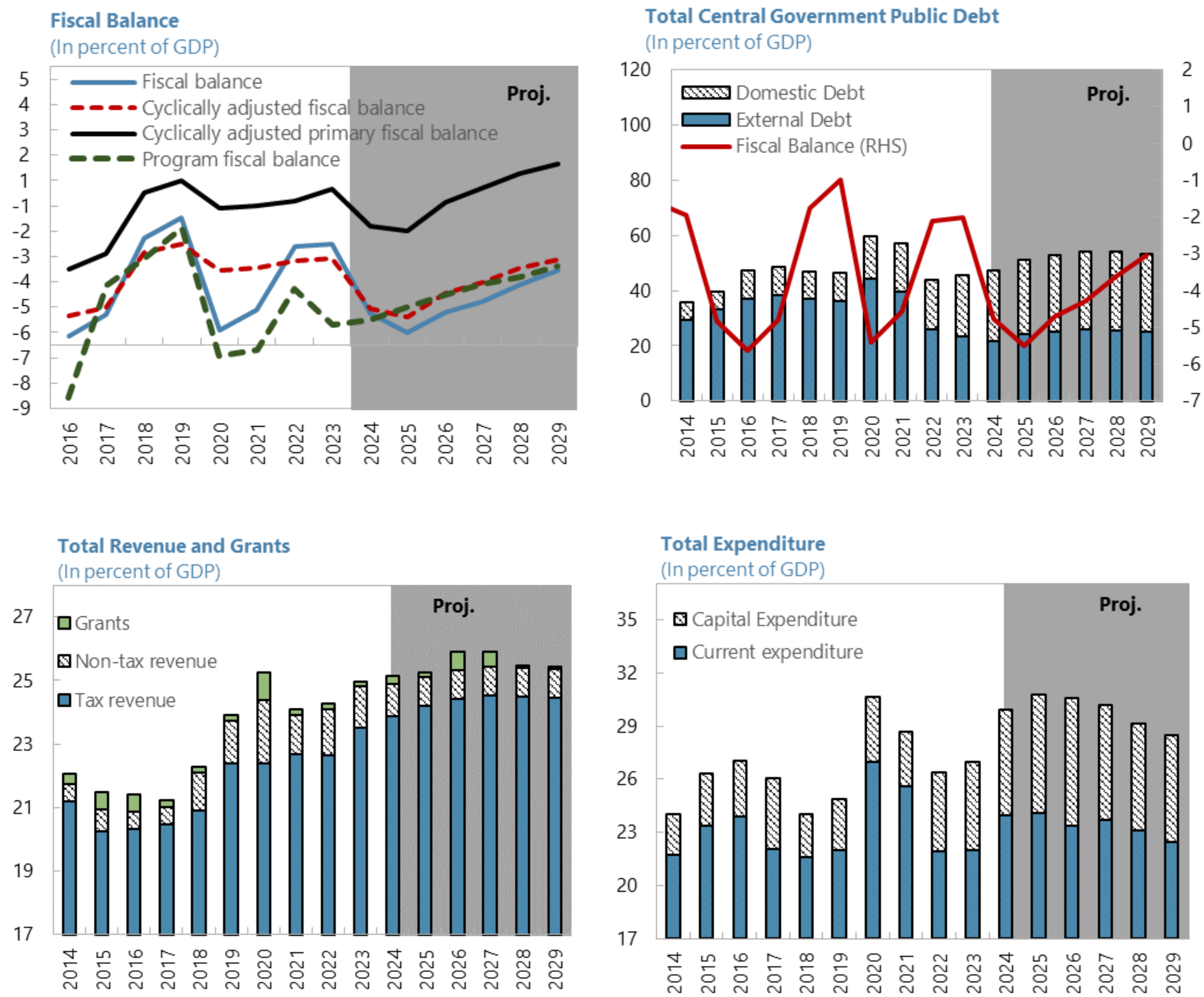
Sources: National authorities, Haver, IMF World Economic Outlook, IMF International Financial Statistics, and IMF staff calculations.

Figure 2. Armenia: External Sector Developments



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

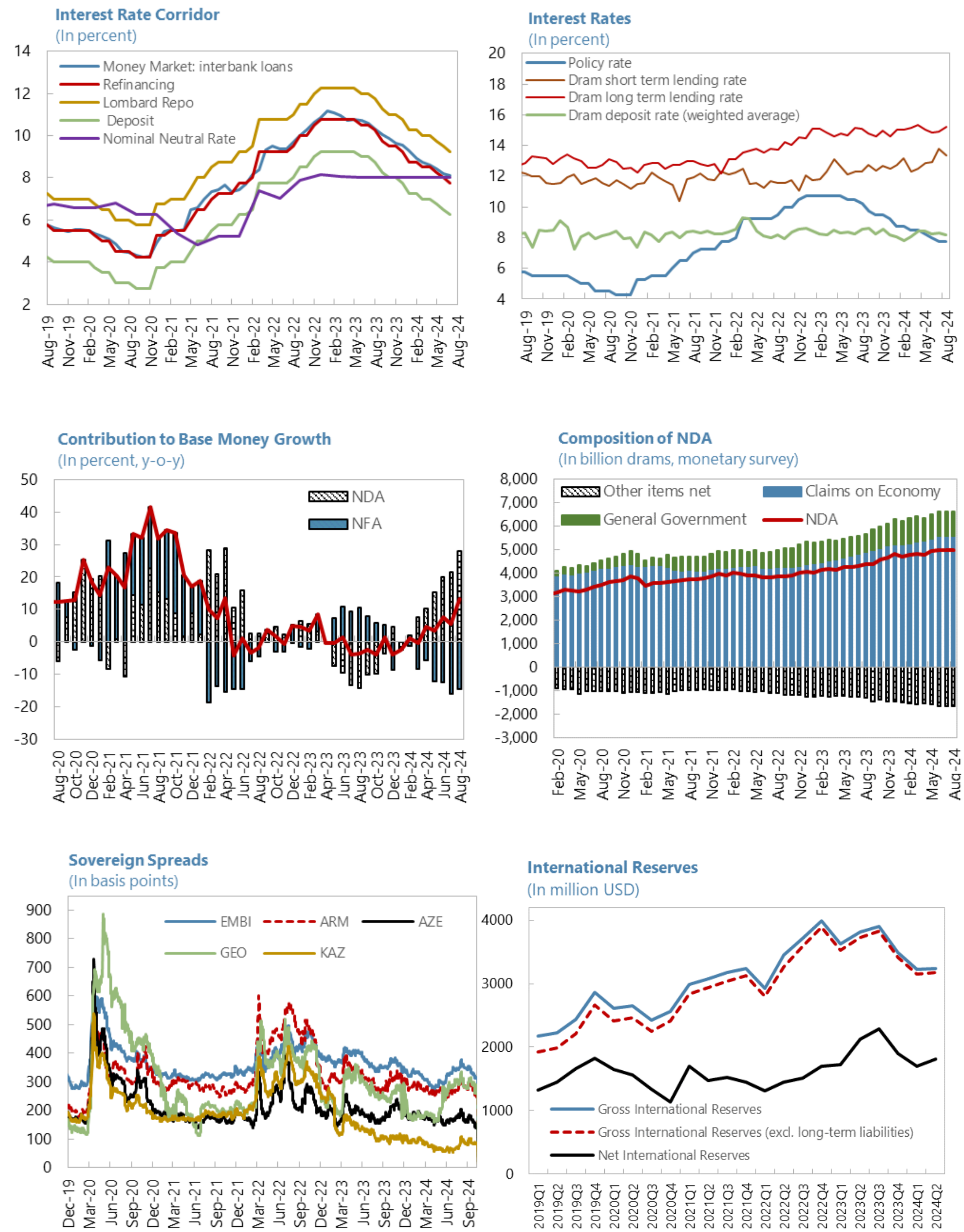
Figure 3. Armenia: Fiscal Developments 1/



Sources: National authorities and IMF staff calculations.

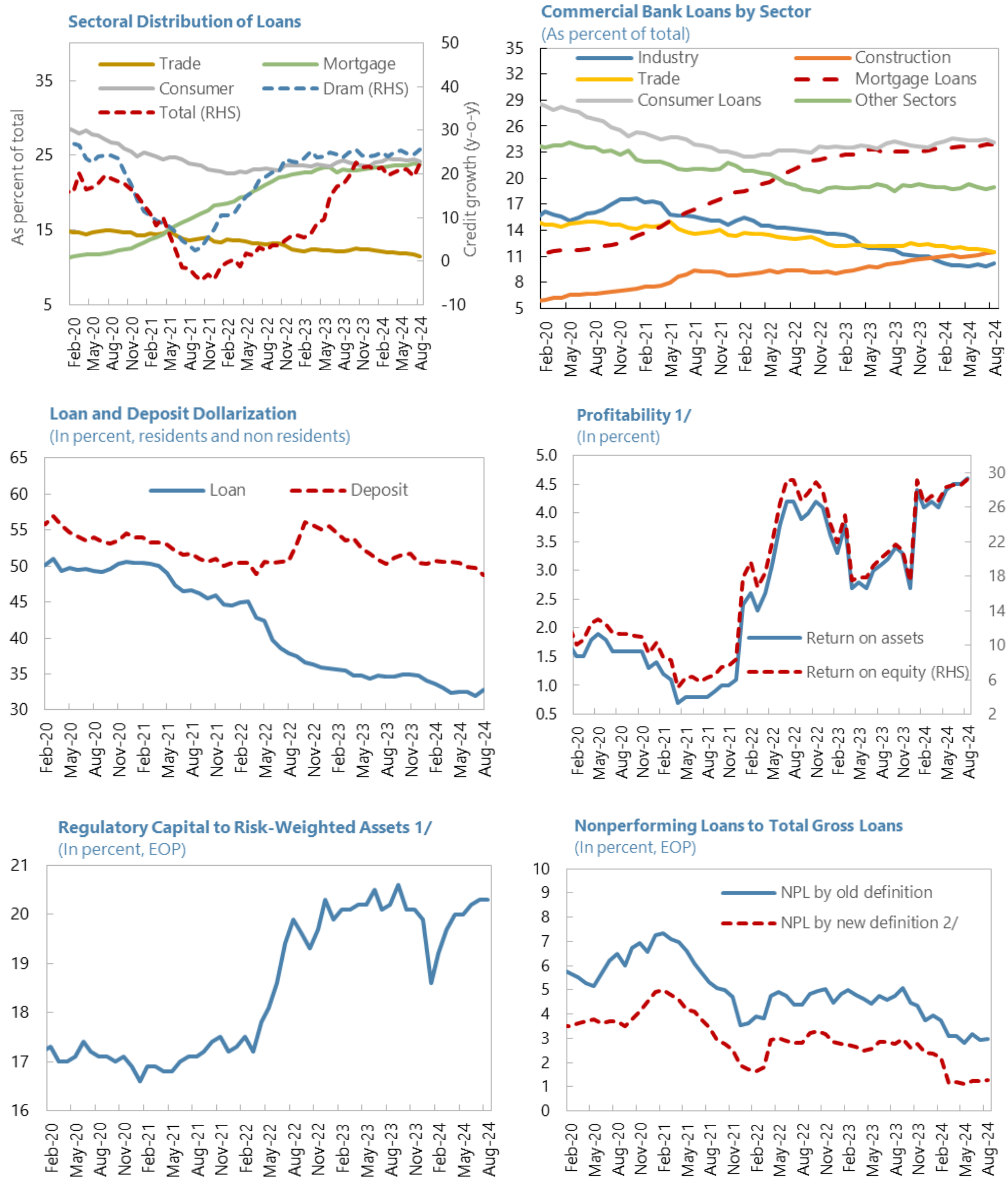
1/ From 2024, off-budget net external lending, previously reflected in the program fiscal balance as expenditures, was moved above-the-line and included in the fiscal balance.

Figure 4. Armenia: Monetary Developments



Sources: Central Bank of Armenia, Bloomberg and IMF Staff Calculations.

Figure 5. Armenia: Financial Developments



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

1/ The increase in regulatory capital in 2022 is due to the increase in the capital conservation buffer and the capita surcharge for systemically important banks and higher (retained) profits from payment-and-settlement and foreign currency transactions.

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

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Act.				Proj.			
National income and prices:									
Real GDP (percent change)	5.8	12.6	8.3	6.0	4.9	4.5	4.5	4.5	4.5
Final consumption expenditure, Contrib. to Growth	1.2	3.7	7.3	6.7	3.0	3.0	3.0	3.0	3.0
Gross fixed capital formation, Contrib. to Growth	4.2	3.0	2.1	2.3	2.1	2.0	2.0	2.0	2.0
Changes in inventories, Contrib. to Growth	0.0	-0.3	-0.9	-1.4	0.0	0.0	0.0	0.0	0.0
Net exports of goods and services, Contrib. to Growth	0.4	6.2	-0.2	-1.6	-0.1	-0.5	-0.5	-0.5	-0.5
Gross domestic product (in billions of drams)	6,992	8,501	9,453	10,161	11,015	11,971	13,010	14,139	15,367
Gross domestic product (in millions of U.S. dollars)	13,879	19,514	24,086	25,251	26,578	27,418	28,941	30,929	33,203
Gross domestic product per capita (in U.S. dollars)	4,685	6,661	8,126	8,518	8,965	9,247	9,760	10,430	11,196
CPI (period average; percent change)	7.2	8.7	2.0	0.2	3.1	4.0	4.0	4.0	4.0
CPI (end of period; percent change)	7.7	8.3	-0.6	1.0	3.9	4.0	4.0	4.0	4.0
GDP deflator (percent change)	6.9	8.0	2.7	1.4	3.3	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	22.4	21.3	20.1	19.9	19.7	19.8	19.9	19.9
National savings	19.5	22.7	19.0	15.5	15.4	15.1	15.0	15.1	15.1
Money and credit (end of period)									
Reserve money (percent change)	17.1	5.0	-4.0	9.4	9.0	8.7	8.7	8.7	8.7
Broad money (percent change)	13.1	16.1	17.4	14.7	10.7	9.3	9.3	9.3	9.3
Private sector credit growth (percent change)	-3.9	4.5	18.4	15.4	11.7	11.1	11.1	11.1	11.1
Central government operations (in percent of GDP)									
Revenue and grants	24.1	24.3	25.0	25.2	25.3	25.9	25.9	25.5	25.4
Of which: tax revenue	22.1	21.9	22.5	22.9	23.2	23.4	23.5	23.5	23.5
Expenditure	28.7	26.4	27.0	29.9	30.8	30.4	30.2	29.2	29.0
Overall balance on a cash basis	-4.6	-2.1	-2.0	-4.8	-5.5	-4.5	-4.3	-3.8	-3.5
Public and publicly-guaranteed (PPG) debt (in percent of GDP)	63.4	49.2	50.7	52.3	55.6	56.3	57.1	57.1	56.4
Central Government's PPG debt (in percent of GDP)	60.2	46.7	48.4	49.7	53.3	54.5	55.6	55.5	55.1
Share of foreign currency Central Government PPG debt (in percent)	71.2	62.1	54.1	48.5	49.0	48.3	47.6	46.8	46.0
External sector									
Exports of goods and services (in millions of U.S. dollars)	5,040	10,118	14,338	17,435	12,213	12,488	12,402	12,782	13,324
Imports of goods and services (in millions of U.S. dollars)	-6,155	-10,265	-14,532	-18,083	-13,216	-13,620	-13,619	-14,110	-14,779
Exports of goods and services (percent change)	30.7	100.8	41.7	21.6	-30.0	2.3	-0.7	3.1	4.2
Imports of goods and services (percent change)	20.3	66.8	41.6	24.4	-26.9	3.1	0.0	3.6	4.7
Current account balance (in percent of GDP)	-3.5	0.3	-2.3	-4.5	-4.5	-4.9	-4.8	-4.8	-4.8
FDI (net, in millions of U.S. dollars)	342	926	527	323	437	454	468	483	507
Gross international reserves (in millions of U.S. dollars)	3,230	4,112	3,607	3,552	3,336	3,354	3,443	3,540	3,737
Import cover 1/	3.8	3.4	2.4	2.9	2.9	2.9	2.9	2.9	2.9
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/ 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.					Proj.		
Current account	-483	65	-556	-1,144	-1,187	-1,349	-1,392	-1,481	-1,580
Trade balance	-1,505	-1,866	-2,515	-2,340	-2,734	-2,766	-2,811	-2,893	-3,135
Exports	3,277	5,711	8,648	12,030	6,938	7,039	6,853	6,955	7,069
Imports	-4,781	-7,577	-11,163	-14,370	-9,672	-9,805	-9,665	-9,848	-10,203
Services (net)	389	1,719	2,321	1,692	1,730	1,635	1,594	1,565	1,680
Credits	1,763	4,406	5,690	5,405	5,275	5,450	5,548	5,827	6,255
Debits	-1,374	-2,688	-3,370	-3,713	-3,544	-3,815	-3,955	-4,262	-4,575
Income (net)	-399	-522	-652	-778	-492	-545	-566	-582	-593
Transfers (net)	1,031	734	289	282	308	327	392	429	467
Private	954	805	513	256	244	261	338	388	426
Official	77	-71	-224	26	64	66	54	41	41
Capital and financial account	937	601	26	1,260	1,105	1,429	1,482	1,577	1,777
Capital transfers (net)	63	77	60	36	36	139	159	24	24
Foreign direct investment (net)	342	926	527	323	437	454	468	483	507
Portfolio investment (net)	672	-1,356	64	-206	-80	-80	-80	-80	-80
Public sector borrowing (net)	666	-871	-206	51	611	326	486	521	524
Disbursements	912	-570	366	508	1,415	845	845	845	1,345
Amortization	-246	-301	-572	-457	-804	-519	-359	-324	-821
Other capital (net)	-140	556	-419	1,056	101	590	449	629	802
Errors and omissions	51	127	-1	0	0	0	0	0	0
Overall balance	505	793	-531	116	-82	80	91	96	197
Financing	-505	-793	427	-116	82	-79	-91	-96	-197
Gross international reserves (increase: -)	-614	-882	505	55	216	-19	-89	-96	-197
Use of Fund credit, net	-66	89	-78	-171	-134	-61	-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	0.3	-2.3	-4.5	-4.5	-4.9	-4.8	-4.8	-4.8
Trade balance (in percent of GDP)	-10.8	-9.6	-10.4	-9.3	-10.3	-10.1	-9.7	-9.4	-9.4
Gross international reserves (end of period)	3,230	4,112	3,607	3,552	3,336	3,354	3,443	3,540	3,737
In months of next year's imports	3.8	3.4	2.4	2.9	2.9	2.9	2.9	2.9	2.9
In percent of IMF's Reserve Adequacy Metric (ARA)	143	153	116	107	104	105	107	107	105
Goods export growth, percent change	20.5	74.3	51.4	39.1	-42.3	1.4	-2.6	1.5	1.6
Goods import growth, percent change	16.6	58.5	47.3	28.7	-32.7	1.4	-1.4	1.9	3.6
Nominal external debt	13,663	15,567	15,984	16,617	17,807	18,667	19,612	20,613	21,637
o.w. public external debt	6,811	6,919	6,869	6,910	7,517	7,842	8,327	8,848	9,372
Nominal external debt stock (in percent of GDP)	98.4	79.8	66.4	65.8	67.0	68.1	67.8	66.6	65.2
External public debt-to-exports ratio (in percent)	135.1	68.4	47.9	39.6	61.5	62.8	67.1	69.2	70.3
External public debt service (in percent of exports)	9.2	4.7	5.7	4.1	8.7	6.5	5.5	5.3	9.0

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	2,556.4	2,781.9	3,099.3	3,370.4	3,602.4	3,906.6
Total revenue	1,671.5	2,048.1	2,345.5	2,527.7	2,766.9	3,029.8	3,309.7	3,591.4	3,895.4
Tax revenues 1/	1,543.9	1,861.5	2,131.6	2,323.8	2,557.6	2,802.4	3,062.6	3,322.7	3,603.5
VAT	556.0	679.6	767.2	751.9	817.3	885.8	962.7	1,046.3	1,137.1
Profits, simplified and presumptive	158.6	222.8	321.6	345.5	374.5	407.0	442.3	480.7	522.5
Personal income tax	426.3	474.8	554.5	669.3	727.0	796.1	876.9	947.3	1,021.9
Customs duties	84.8	56.7	75.3	81.3	88.1	95.8	104.1	113.1	122.9
Other	318.2	427.6	413.1	475.8	550.7	617.7	676.5	735.2	799.1
Social contributions	43.0	64.5	90.3	101.6	110.1	119.7	130.1	141.4	153.7
Other revenue	84.6	122.2	123.6	102.3	99.1	107.7	117.1	127.3	138.3
Grants	12.4	15.0	13.9	28.7	15.0	69.5	60.7	11.0	11.1
Total expenditure	2,004.3	2,242.6	2,551.0	3,039.4	3,387.4	3,638.0	3,926.6	4,134.7	4,448.8
Expenses	1,788.0	1,862.2	2,077.8	2,437.2	2,654.2	2,800.6	3,080.9	3,268.1	3,511.5
Wages	394.8	419.6	443.2	471.5	509.9	544.7	592.0	643.3	699.2
Payments to individual pension accts.	58.7	54.3	53.3	60.7	83.5	83.8	78.1	70.7	76.8
Subsidies	12.4	19.8	26.1	25.4	22.0	18.0	26.0	28.3	30.7
Interest	180.8	198.3	253.4	333.1	386.8	440.5	494.1	547.1	591.8
Social allowances and pensions	564.3	559.3	657.9	949.4	1,001.2	1,001.2	1,087.6	1,117.0	1,183.2
Pensions/social security benefits	317.9	356.6	386.7	432.7	476.1	517.1	561.9	593.9	630.0
Social assistance benefits	246.4	202.7	271.2	516.7	525.1	484.1	525.7	523.2	553.2
Goods and services	131.6	136.0	124.7	107.9	96.9	153.3	209.7	219.8	238.2
Grants	202.9	237.6	279.8	294.7	334.8	318.2	335.0	359.1	384.2
Other expenditure	242.5	237.4	239.4	194.6	219.1	240.9	258.5	282.8	307.3
Transactions in nonfinancial assets	216.3	380.4	473.2	602.2	733.2	837.4	845.7	866.6	937.4
Acquisition of nonfinancial assets	218.4	389.3	495.0	617.2	748.2	852.4	860.7	876.6	952.7
Disposals of nonfinancial assets	2.1	8.9	21.8	15.0	15.0	15.0	15.0	10.0	15.4
Overall balance (above-the-line)	-320.5	-179.5	-191.6	-482.9	-605.5	-538.7	-556.2	-532.3	-542.3
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)	-320.5	-163.5	-187.6	-482.9	-605.5	-538.7	-556.2	-532.3	-542.3
Financing	320.5	163.5	187.6	482.9	605.5	538.7	556.2	532.3	542.3
Domestic financing	101.2	272.1	411.5	453.8	368.0	373.0	336.0	295.5	300.3
Banking system	183.5	85.2	236.5	239.8	198.7	194.9	206.4	170.3	161.8
CBA	-133.6	21.3	63.3	0.0	-6.6	-11.2	-12.0	0.0	0.0
Commercial Banks	317.2	64.0	173.3	239.8	205.3	206.1	218.4	170.3	161.8
Nonbanks	-82.3	186.9	175.0	214.0	169.3	178.1	129.6	125.2	138.5
T-Bills/other	-61.0	169.4	171.6	237.4	203.2	204.1	216.3	168.6	160.2
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	-23.4	-33.9	-26.0	-86.7	-43.3	-21.7
External financing	219.3	-108.6	-223.9	29.2	237.5	165.7	220.1	236.8	242.0
Gross disbursement	466.5	166.6	124.6	194.4	557.2	368.8	379.7	386.1	622.3
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	-197.9	-165.3	-319.7	-203.1	-159.5	-149.3	-380.3
Net lending	-131.7	-175.6	-150.6	0.0	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	9,453.2	10,160.9	11,014.9	11,970.9	13,010.0	14,139.3	15,366.6
Program balance 2/	-432.5	-320.7	-537.1	-511.4	-613.4	-549.7	-627.9	-575.6	-563.9
Primary balance 3/	-279.9	-127.4	-67.3	-173.3	-252.7	-124.2	-148.8	-28.5	27.9

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. As of January 2024, the mortgage interest tax credit is recorded as a social benefit, resulting in an increase in both spending and revenues (personal income tax) of AMD 72 billion in 2024.

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

3/ 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	25.0	25.2	25.3	25.9	25.9	25.5	25.4
Total revenue	23.9	24.1	24.8	24.9	25.1	25.3	25.4	25.4	25.4
Tax revenues 1/	22.1	21.9	22.5	22.9	23.2	23.4	23.5	23.5	23.5
VAT	8.0	8.0	8.1	7.4	7.4	7.4	7.4	7.4	7.4
Profits, simplified and presumptive	2.3	2.6	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Personal income tax	6.1	5.6	5.9	6.6	6.6	6.7	6.7	6.7	6.7
Customs duties	1.2	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other	4.6	5.0	4.4	4.7	5.0	5.2	5.2	5.2	5.2
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	1.0	0.9	0.9	0.9	0.9	0.9
Grants	0.2	0.2	0.1	0.3	0.1	0.6	0.5	0.1	0.1
Total expenditure	28.7	26.4	27.0	29.9	30.8	30.4	30.2	29.2	29.0
Expense	25.6	21.9	22.0	24.0	24.1	23.4	23.7	23.1	22.9
Wages	5.6	4.9	4.7	4.6	4.6	4.6	4.6	4.6	4.6
Payments to individual pension accts.	0.8	0.6	0.6	0.6	0.8	0.7	0.6	0.5	0.5
Subsidies	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Interest	2.6	2.3	2.7	3.3	3.5	3.7	3.8	3.9	3.9
Social allowances and pensions	8.1	6.6	7.0	9.3	9.1	8.4	8.4	7.9	7.7
Pensions/social security benefits	4.5	4.2	4.1	4.3	4.3	4.3	4.3	4.2	4.1
Social assistance benefits	3.5	2.4	2.9	5.1	4.8	4.0	4.0	3.7	3.6
Goods and services	1.9	1.6	1.3	1.1	0.9	1.3	1.6	1.6	1.6
Grants	2.9	2.8	3.0	2.9	3.0	2.7	2.6	2.5	2.5
Other expenditure	3.5	2.8	2.5	1.9	2.0	2.0	2.0	2.0	2.0
Transactions in nonfinancial assets	3.1	4.5	5.0	5.9	6.7	7.0	6.5	6.1	6.1
Acquisition of nonfinancial assets	3.1	4.6	5.2	6.1	6.8	7.1	6.6	6.2	6.2
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)	-4.6	-2.1	-2.0	-4.8	-5.5	-4.5	-4.3	-3.8	-3.5
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)	-4.6	-1.9	-2.0	-4.8	-5.5	-4.5	-4.3	-3.8	-3.5
Financing	4.6	1.9	2.0	4.8	5.5	4.5	4.3	3.8	3.5
Domestic financing	1.4	3.2	4.4	4.5	3.3	3.1	2.6	2.1	2.0
Banking system	2.6	1.0	2.5	2.4	1.8	1.6	1.6	1.2	1.1
CBA	-1.9	0.3	0.7	0.0	-0.1	-0.1	-0.1	0.0	0.0
Commercial Banks	4.5	0.8	1.8	2.4	1.9	1.7	1.7	1.2	1.1
Nonbanks	-1.2	2.2	1.9	2.1	1.5	1.5	1.0	0.9	0.9
T-Bills/other	-0.9	2.0	1.8	2.3	1.8	1.7	1.7	1.2	1.0
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	-0.7	-0.3	-0.1
External financing	3.1	-1.3	-2.4	0.3	2.2	1.4	1.7	1.7	1.6
Gross disbursement	6.7	2.0	1.3	1.9	5.1	3.1	2.9	2.7	4.0
Amortization due	-1.7	-1.2	-2.1	-1.6	-2.9	-1.7	-1.2	-1.1	-2.5
Net lending	-1.9	-2.1	-1.6	0.0	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	9,453	10,161	11,015	11,971	13,010	14,139	15,367
Program balance 2/	-6.2	-3.8	-5.7	-5.0	-5.6	-4.6	-4.8	-4.1	-3.7
Primary balance 3/	-4.0	-1.5	-0.7	-1.7	-2.3	-1.0	-1.1	-0.2	0.2

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. As of January 2024, the mortgage interest tax credit is recorded as a social benefit, resulting in an increase in both spending and revenues (personal income tax) of AMD 72 billion in 2024.

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

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

Table 4. Armenia: Monetary Accounts, 2021–25
(In billions of drams, unless otherwise specified)

	2021	2022	2023	2024				2025			
				Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
						Prelim.	Proj.	Proj.			
Central Bank of Armenia											
Net foreign assets	1186.6	1287.5	1117.7	971.3	988.5	1063.5	1167.5	1152.4	1136.2	1181.8	1374.1
Net international reserves 1/	694.2	685.7	795.8	686.9	715.8	818.2	912.7	888.0	862.3	898.4	1081.1
Other	492.3	601.8	321.9	284.3	272.7	245.2	254.8	264.3	273.9	283.4	293.0
Net domestic assets	644.2	634.5	727.9	765.8	858.4	850.2	881.5	861.3	881.4	921.7	859.4
Claims on general government (net)	-393.8	-372.6	-382.8	-489.0	-486.5	-502.7	-502.7	-504.3	-506.0	-507.6	-509.3
Of which: central government (net)	-323.6	-308.2	-322.4	-410.3	-400.0	-409.9	-409.9	-411.6	-413.2	-414.9	-416.5
central government deposits	403.5	381.5	392.1	498.6	496.2	512.3	419.5	421.2	422.8	424.5	426.1
Claims on banks	696.4	528.3	658.1	795.0	885.0	913.1	913.1	913.1	913.1	913.1	913.1
Other items (net)	341.6	478.9	452.6	459.9	459.9	439.8	471.1	452.5	474.2	516.2	455.6
Reserve money	1,830.7	1,922.1	1,845.6	1,737.1	1,846.9	1,913.9	2,049.0	2,013.7	2,017.6	2,103.6	2,233.5
Currency issue	747.2	803.1	911.5	850.9	885.3	929.5	1,024.6	1,012.7	1,043.1	1,114.8	1,134.0
Banks' reserves	1,043.9	1,088.5	886.2	867.7	943.1	966.1	1,006.3	982.8	956.4	970.7	1,081.5
In drams	408.8	360.7	392.2	403.1	488.1	508.0	538.6	505.6	469.6	474.4	575.6
In foreign currency	635.1	727.8	494.0	464.5	454.9	458.1	467.7	477.2	486.8	496.3	505.9
Other accounts	39.7	30.5	48.0	18.5	18.6	18.1	18.1	18.1	18.1	18.1	18.1
Banking system											
Net foreign assets	-178.0	334.3	343.8	239.0	289.6	225.0	319.5	294.8	269.1	305.2	487.9
Net domestic assets	3,980.6	4,080.6	4,839.2	4,827.5	4,968.1	5,244.8	5,710.2	5,664.9	5,869.0	6,255.2	6,185.1
Claims on government (net)	744.0	937.4	1,100.5	1,079.3	1,041.2	1,101.6	1,161.5	1,219.8	1,278.1	1,336.4	1,394.7
Of which: claims on central government (net)	814.2	1,001.8	1,160.8	1,158.0	1,127.7	1,194.4	1,254.3	1,312.6	1,370.9	1,429.2	1,487.5
Claims on rest of the economy	4,208.7	4,397.6	5,208.0	5,334.1	5,585.1	6,010.8	6,010.0	6,022.2	6,283.3	6,726.0	6,713.2
Other items (net)	-972.1	-1,254.4	-1,469.3	-1,585.9	-1,658.2	-1,867.5	-1,461.4	-1,577.1	-1,692.4	-1,807.3	-1,922.8
Broad money	3,802.6	4,415.0	5,183.0	5,066.4	5,257.6	5,469.9	6,029.7	5,959.7	6,138.1	6,560.4	6,673.0
Currency in circulation	636.1	675.7	778.1	731.7	767.7	802.1	884.2	873.9	900.1	962.0	978.5
Deposits	3,166.5	3,739.3	4,404.8	4,334.7	4,489.9	4,667.8	5,145.6	5,085.8	5,238.0	5,598.4	5,694.5
Domestic currency	1,826.7	2,118.0	2,632.0	2,618.3	2,718.6	2,883.7	3,259.4	3,172.3	3,297.2	3,630.1	3,698.8
Foreign currency	1,339.8	1,621.2	1,772.8	1,716.4	1,771.3	1,784.0	1,886.1	1,913.5	1,940.9	1,968.3	1,995.7
Memorandum items:											
Exchange rate (drams per U.S. dollar, end of period)	480.1	393.6	404.8	393.3	388.2	387.3	...	...	...	...	...
12-month change in reserve money (in percent)	17.1	5.0	-4.0	-0.5	7.5	10.1	11.0	15.9	9.2	9.9	9.0
12-month change in broad money (in percent)	13.1	16.1	17.4	12.6	13.5	12.3	16.3	17.6	16.7	19.9	10.7
12-month change in dram broad money (in percent)	12.8	13.4	22.1	18.8	15.8	16.8	21.5	20.8	20.4	24.6	12.9
12-month change in private sector credit (in percent)	-3.9	4.5	18.4	17.0	17.8	20.9	15.4	12.9	12.5	11.9	11.7
Velocity of broad money (end of period)	1.8	1.9	1.8	1.9	1.9	1.8	1.7	1.7	1.7	1.6	1.7
Money multiplier	2.1	2.3	2.8	2.9	2.8	2.9	2.9	3.0	3.0	3.1	3.0
Private sector credit (in percent of GDP)	60.2	51.7	55.1	52.5	55.0	59.2	59.1	59.3	61.8	66.2	66.1
Dollarization in bank deposits 2/	42.3	43.4	40.2	39.6	39.5	38.2	36.7	37.6	37.1	35.2	35.0
Dollarization in broad money 3/	35.2	36.7	34.2	33.9	33.7	32.6	31.3	32.1	31.6	30.0	29.9
Currency in circulation in percent of deposits	20.1	18.1	17.7	16.9	17.1	17.2	17.2	17.2	17.2	17.2	17.2
NIR (U.S. dollars, actual exchange rate)	1,445.9	1,742.3	1,966.0	1,746.7	1,844.0	2,112.7	1,830.0	1,751.9	1,625.5	1,701.0	1,625.5

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, 2022–24

(In percent, unless otherwise indicated)

	2022				2023				2024		
	Mar	June	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Capital adequacy											
Total regulatory capital to risk-weighted assets	17.2	18.6	19.6	20.3	20.1	20.6	20.6	19.9	19.7	20.2	20.4
Tier I regulatory capital to risk-weighted assets											
Capital (net worth) to assets	14.8	15.2	14.9	14.9	15.4	15.4	15.6	14.8	15.5	15.8	16.0
Asset composition											
Sectoral distribution of loans (in billions of drams)											
Industry (excluding energy sector)	415.7	375.7	371.1	372.2	367.0	339.2	327.4	328.9	309.4	330.5	369.4
Energy sector	132.8	122.1	122.7	127.5	135.4	135.5	140.6	156.7	146.1	154.0	144.6
Agriculture	230.4	227.5	221.3	238.2	247.6	259.2	273.5	285.6	301.7	327.6	331.9
Construction	333.7	328.4	340.2	349.6	370.3	400.4	444.0	499.0	528.4	551.8	609.0
Transport and communication	116.7	101.4	87.3	88.6	92.8	105.1	104.5	107.1	104.7	111.4	122.2
Trade/commerce	504.9	472.1	477.5	469.7	486.9	501.1	529.6	573.6	559.7	585.6	607.6
Consumer credits	834.4	824.6	837.6	895.5	928.6	962.6	1040.1	1085.6	1162.7	1245.8	1,286.7
Mortgage loans	698.0	721.9	780.4	849.4	897.7	959.0	997.2	1069.4	1109.3	1175.4	1,271.4
Sectoral distribution of loans to total loans (percent of total)											
Industry (excluding energy sector)	10.6	9.9	9.4	8.9	8.6	7.6	6.9	6.5	6.1	6.2	6.4
Energy sector	3.4	3.2	3.1	3.1	3.2	3.0	3.0	3.1	2.9	2.9	2.5
Agriculture	5.9	6.0	5.6	5.7	5.8	5.8	5.8	5.7	5.9	6.1	5.7
Construction	8.5	8.6	8.6	8.4	8.7	9.0	9.4	9.9	10.4	10.3	10.5
Transport and communication	3.0	2.7	2.2	2.1	2.2	2.4	2.2	2.1	2.1	2.1	2.1
Trade/commerce	12.9	12.4	12.1	11.3	11.4	11.2	11.2	11.4	11.0	10.9	10.5
Mortgage loans	17.8	18.9	19.8	20.4	21.0	21.5	21.1	21.3	21.7	21.9	21.9
Consumer credits	21.3	21.6	21.3	21.5	21.8	21.6	22.0	21.6	22.8	23.2	22.2
Other sectors	16.8										
Foreign exchange loans to total loans	46.0	40.5	38.1	36.6	36.3	35.1	32.8	33.0	31.5	31.2	31.6
Asset quality											
Nonperforming loans (in billions of drams)	72.6	113.9	129.0	117.4	114.3	128.5	143.0	126.2	61.1	67.9	73.3
Watch (up to 90 days past due)	82.5	72.7	63.0	67.0	91.7	84.9	101.1	70.7	100.1	105.5	126.9
Substandard (91-180 days past due)	39.9	37.3	41.3	36.7	38.6	51.1	59.8	87.0	32.0	43.0	44.0
Doubtful (181-270 days past due)	32.8	76.5	87.8	80.7	75.7	77.4	83.3	39.2	29.1	24.9	29.3
Loss (>270 days past due, in billions of drams)	455.2	434.9	460.0	489.7	487.3	480.7	481.8	480.7	517.3	506.7	513.2
Nonperforming loans to gross loans	1.8	2.9	3.2	2.8	2.7	2.9	3.0	2.4	1.2	1.2	1.2
Provisions to nonperforming loans	91.2	76.5	74.5	80.3	82.6	87.6	90.6	103.8	145.5	129.1	131.7
Spread between highest and lowest rates of interbank borrowing in AMD	6.5	1.2	1.5	1.0	0.4	0.3	0.6	0.7	0.5	0.4	1.0
Spread between highest and lowest rates of interbank borrowing in FX	1.8	1.3	0.5	2.5	1.3	1.0	0.3	0.9	1.0	1.0	1.8
Earnings and profitability											
ROA (profits to period average assets)	2.3	3.7	3.9	4.1	3.8	2.7	3.2	2.7	4.2	4.5	4.5
ROE (profits to period average equity)	16.7	26.3	26.8	27.9	25.1	17.9	20.8	17.4	27.3	28.6	28.3
Interest margin to gross income	26.2	24.2	24.0	25.0	35.1	36.2	36.5	36.0	38.9	38.7	38.7
Interest income to gross income	65.0	58.2	55.9	55.4	68.7	69.2	69.0	68.8	71.8	70.5	70.2
Noninterest expenses to gross income	26.9	25.3	23.9	26.1	30.0	29.9	29.1	36.8	27.9	28.9	28.5
Liquidity											
Liquid assets to total assets	31.1	32.6	34.8	37.0	38.2	35.5	35.7	33.2	34.7	33.4	32.2
Liquid assets to total short-term liabilities	117.5	111.8	108.9	102.4	104.6	98.6	102.9	92.2	99.2	92.0	91.9
Customer deposits to total (non-interbank) loans	114.3	118.2	125.8	135.9	130.4	125.1	122.7	120.9	120.1	116.0	110.3
Foreign exchange liabilities to total liabilities	47.7	46.8	48.7	50.3	48.5	47.5	47.1	46.1	45.5	44.3	43.0
Sensitivity to market risk											
Gross open positions in foreign exchange to capital	12.4	9.3	6.8	3.3	2.0	2.5	2.3	3.6	2.7	2.6	2.31
Net open position in FX to capital	11.1	7.2	5.0	1.9	0.4	0.7	0.9	0.5	1.7	0.4	0.64

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	20.5	12.1	9.1	7.4	7.2	7.2	7.2
Fund obligations based on existing and prospective credit 1/							
In millions of SDRs	149.5	115.7	59.3	26.8	62.4	74.0	21.4
In millions of US$	199.0	155.1	79.8	36.0	84.0	99.5	28.7
In percent of Gross International Reserves	5.6	5.5	2.6	1.1	2.6	2.8	0.8
In percent of exports of goods and services	1.1	1.7	0.7	0.3	0.7	0.7	0.2
In percent of external public debt service	27.6	14.6	9.7	5.2	11.2	7.7	4.2
In percent of GDP	0.8	0.6	0.3	0.1	0.3	0.3	0.1
In percent of quota	116.1	89.8	46.1	20.8	48.5	57.5	16.6
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	6.0	2.4	0.6	0.0	0.0	0.0	0.0
In percent of exports of goods and services	1.2	0.6	0.2	0.0	0.0	0.0	0.0
In percent of external public debt service	29.4	7.5	2.3	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	9.4	8.9	6.2	4.4	2.5	0.5	0.0
In percent of exports of goods and services	1.9	2.8	1.7	1.3	0.6	0.1	0.0
In percent of external public debt service	46.4	23.7	23.5	21.6	10.7	1.4	0.0
In percent of GDP	1.3	1.0	0.7	0.5	0.3	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/	-149.5	13.1	-59.3	-26.8	-62.4	-74.0	-21.4
Disbursements	0.0	128.8	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	149.5	115.7	59.3	26.8	62.4	74.0	21.4
Memorandum items (adverse scenario)							
Nominal GDP (in millions of US$)	25,251	25,926	26,472	27,943	29,863	33,203	35,588
Exports of goods and services (in millions of US$)	17,435	9,029	11,009	11,105	12,782	14,211	15,232
Gross international reserves (in millions of US$)	3552	2820	3093	3355	3202	3,561	3,816

Sources: IMF staff estimates and projections.

1/ Assumes access of 128.8 million SDR in 2025. 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	**1,942**	**1,528**	**2,672**	**2,918**	**2,977**
Current Account Deficit excluding budget support grants	-53	566	1,179	1,228	1,368
Change in NFA	966	-505	-55	-216	19
External debt amortization (excluding IMF)	987	1437	1378	1778	1548
o/w government amortization	301	572	457	804	519
o/w other	685	865	921	974	1029
Repayment to the Fund (amortization)	42	30	170	128	43
Financing Sources	**1942**	**1528**	**2672**	**2918**	**2977**
FDI	926	527	323	437	454
Loan disbursements (public sector)	570	366	508	1415	845
- Program	278	158	325	900	400
- Project	292	208	183	515	445
External Grants	31	31	71	77	177
- Program	12	9	35	41	18
- Project	18	22	36	36	159
Other Capital Flows	288	605	1770	990	1501
Errors and Omissions	127	-1	0	0	0
Financing Gap	0	0	0	0	0

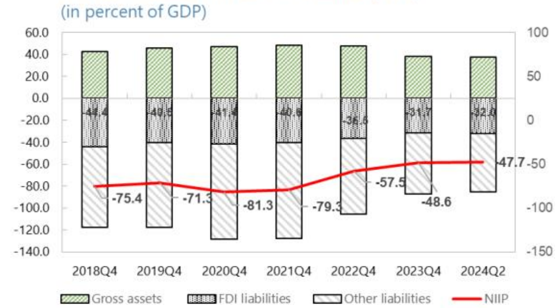
Sources: Ministry of Finance, Central Bank of Armenia, and Fund staff estimates and projections.

Annex I. External Sector Assessment

Overall Assessment and Policy Responses: *The 2023 external position is assessed to be moderately weaker than the level implied by medium-term fundamentals and desirable policies. Continued prudent fiscal policy, exchange rate flexibility, and structural reforms to boost competitiveness would bolster buffers and support the economy's resilience against risks, including exogenous shocks related to geopolitical tensions. Over the medium term, with the tapering of temporary factors, the current account is expected to continue widening, gradually converging towards the norm of close to 5 percent of GDP, mostly reflecting a normalization of remittances and exports, and increased public investment.*

Foreign Assets and Liabilities: Position and Trajectory

Net International Investment Position (NIIP)
(in percent of GDP)



Sources: National authorities, staff calculation

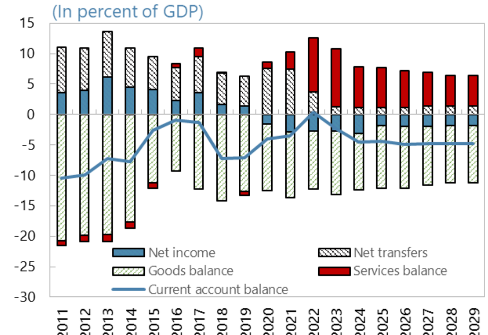
1. Background. The net international investment position (NIIP) improved to around -46.4 percent of GDP at the end of 2023, from -57.5 percent in December 2022, reflecting the continuing sharp increase in nominal GDP in US dollar terms (reflecting both the strength of underlying growth patterns and the ongoing appreciation of the dram against the dollar). During 2024H1 so far, the NIIP has been stable, with only slight changes in FDI and other liabilities. Under staff's baseline projections, the NIIP is expected to deteriorate slightly to around -47.5 percent of GDP in 2024, reflecting a widening of the current account deficit, and stabilize at about -45 percent of GDP in the medium-term.

2. Assessment. The negative IIP does not pose immediate risks to external sustainability. Prior to the sudden improvement in 2022 and 2023 resulting from the surge in the dollar value of GDP, the NIIP was broadly stable over the previous five years (Text Chart) and consistent with the economy's need for investment-related imports. In terms of composition, the share of foreign direct investments (FDI) over total liabilities remains stable at about 40 percent but the increasing share of debt flows as a source of external financing has increased vulnerabilities arising from the composition of the IIP.

2023 (Percent GDP)	NIIP: -46.4	Gross Assets: 37.3	Debt Assets: 19.7	Gross Liab.: 83.7	Debt Liab.: 62.6

Current Account

Current Account
(In percent of GDP)



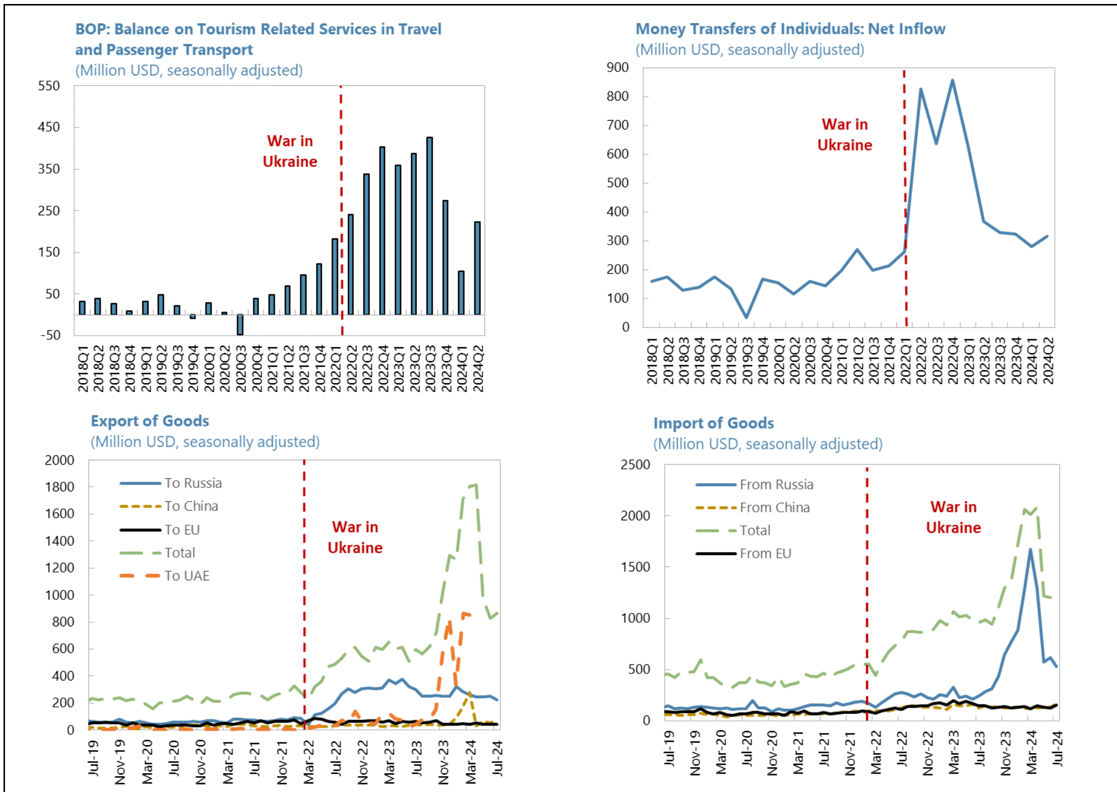
Sources: National authorities and IMF staff calculations.

3. Background. In 2023, the current account balance (CAB) returned to deficit (2.3 percent of GDP, from a surplus of 0.3 percent of GDP in 2022). This reflects a normalization in external demand and the impact on service exports following the recovery in tourism linked to migratory flows driven by the war in Ukraine. In 2024, the current account deficit is expected to reach 4.5 percent of GDP on account of higher imports (reflecting the continuing strength in private consumption). The CA deficit is expected to remain around 4.5 percent of GDP in 2025 and gradually increase over the medium term to slightly below 5.0 percent of GDP, as tourism exports and remittances continue to moderate.

4. There are a number of idiosyncratic factors influencing the 2023 current account outcome in Armenia, including a continuing high level of re-exports, and a record number of nonresidents and foreign exchange inflows entering Armenia since the start of Russia's war in Ukraine. Tourist arrivals from Russia increased to 1.1 million, reaching almost half of total arrivals. For the purpose of assessing the current account in 2023, specific account thus needs to be taken of the following factors.

- **Merchandise trade.** Assessing the trade data for 2023, the temporary net impact of the improvement in the merchandise trade balance arising in the precious metals sector on the current account is calculated at about 2.4 percent of GDP. As this is a one-off shock which is expected to moderate in the short term, the assessment of the current account (CA) gap needs to take the increase in net exports relative to the historical pattern explicitly into account.

- **Exports of services**: the services balance also improved to almost 9 percent of GDP in 2023 (from -0.7 percent of GDP in 2019), largely reflecting the inflow of tourists and migrants following the outbreak of the war in Ukraine. Tourism exports were more than 6 percent of GDP higher than initially projected. The tourism shock is considered also temporary in nature and this is captured in the model via adjusters adapted for this purpose. The net impact is to reduce the CA gap by 1.8 percent of GDP relative to the norm calculated by the model.



Sources: Haver (Armstat and CBA) and IMF staff calculations.

5. Assessment. The EBA-Lite current account model estimates a cyclically-adjusted current account norm of 4.8 percent of GDP for 2023, against an adjusted CA deficit of 6.2 percent of GDP. The CA gap includes adjustments to the current account to reflect risks arising from natural disasters and conflicts and additional adjustors for exports of precious metals and tourism, which continued to surge in 2023. This implies a negative gap of about 1.4 percent of GDP and, based on the CA model, Armenia's 2023 external position is assessed as moderately weaker than the level implied by fundamentals and desirable policies. The CA model-based REER gap shows overvaluation of about 4.4 percent, which is consistent with results obtained using the EBA-Lite Real Effective Exchange Rate (REER) models.

Armenia: EBA-lite Model Results, 2023

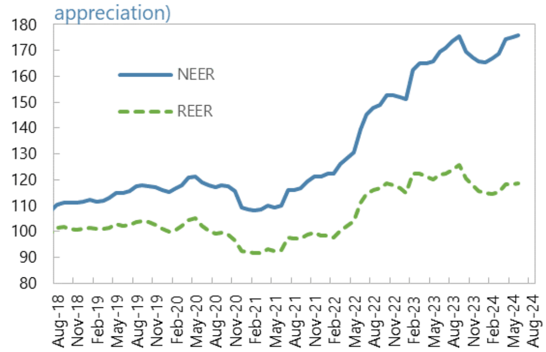
	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-2.3**	
Cyclical contributions (from model) (-)	-0.2	
Additional temporary/statistical factors (-) 2/	4.2	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-6.2**	
CA Norm (from model) 3/	**-4.8**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-4.8**	
CA Gap	**-1.4**	**-1.8**
o/w Relative policy gap	2.0	
Elasticity	-0.3	
REER Gap (in percent)	**4.4**	**5.8**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional adjustment to account for the temporary impact of a large shock to exports of services (1.8 percent of GDP) and precious metals (2.4 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

6. Background. The REER appreciated by 10 percent on average in 2023 relative to 2022, reflecting a moderate increase in inflation differentials with respect to trading partners and nominal appreciation. Between January and June 2024, the REER appreciated by about 1.6 percent, mainly because of continued nominal appreciation of the Armenian dram against the US dollar since the beginning of the war in Ukraine. The dram appreciated by over 10 percent against the US dollar in 2023, on account of (i) greater demand for dram from foreign nationals who relocated to Armenia and (ii) greater use of the ruble and dram instead of the US

Real and Nominal Effective Exchange Rates
(Index, 2010 = 100; increase means appreciation)



Source: IMF(INS)

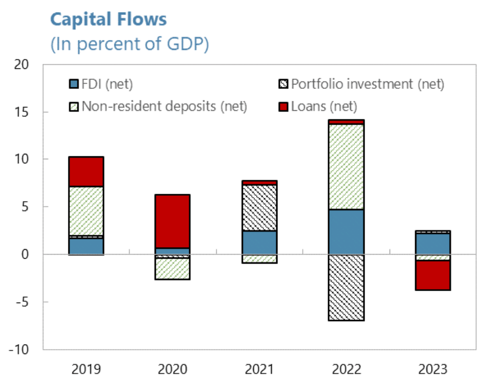
dollar for trade invoicing with Russia, including for payment of gas imports. Nominal appreciation continued through 2024Q1.

7. Assessment. The EBA-Lite CA model (see above) estimates a REER gap of around 4.4 percent for 2023 based on an elasticity of the REER to the current account of -0.31 percent. This is somewhat less than the overvaluation of about 5.8 percent for 2023 produced by the REER model for the same year (Text Table), reflecting the normalization of the current account and the decline in reserves.

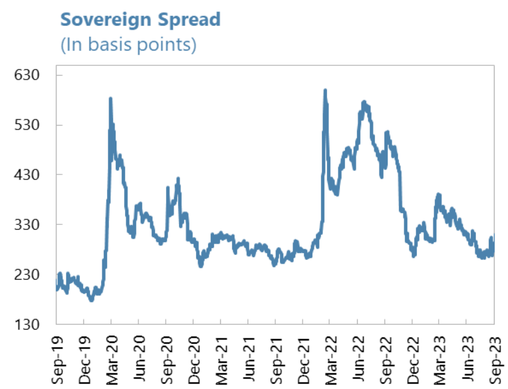
Capital and Financial Accounts

8. Background. In 2023, there was a sharp increase in commercial banks' net outflows (-3.2 percent of GDP) in contrast to the net inflows in 2022 (1.3 percent of GDP). These outflows were accompanied by much-reduced net portfolio investment outflows (0.3 percent of GDP compared to 7.0 percent of GDP). The contribution of FDI to capital inflows has increased significantly in recent years reflecting the impact of the war in Ukraine but began to normalize in 2023. A net FDI inflow of 2.2 percent of GDP was recorded in 2023 following a net inflow of 4.7 percent of GDP in 2022, both well above the historical average of about 1.5 percent of GDP.

9. Assessment. Spreads on Armenia's Eurobond increased by more than 200 basis points after the start of the war in Ukraine—reflecting worsening sovereign risk perceptions and tightening of global financial conditions—before declining again to pre-war levels towards end-2022 and into 2023. Given elevated deposit dollarization and high share of non-resident foreign currency deposits in the banking system, Armenia remains potentially vulnerable to sudden shifts in global financial conditions. Continued de-dollarization efforts and policies aimed at maintaining the share of FDI in external financing (including through timely implementation of structural reforms) will be important to mitigate these vulnerabilities over the medium-term.



Sources: Haver (Armstat) and IMF staff calculations.



Source: Bloomberg.

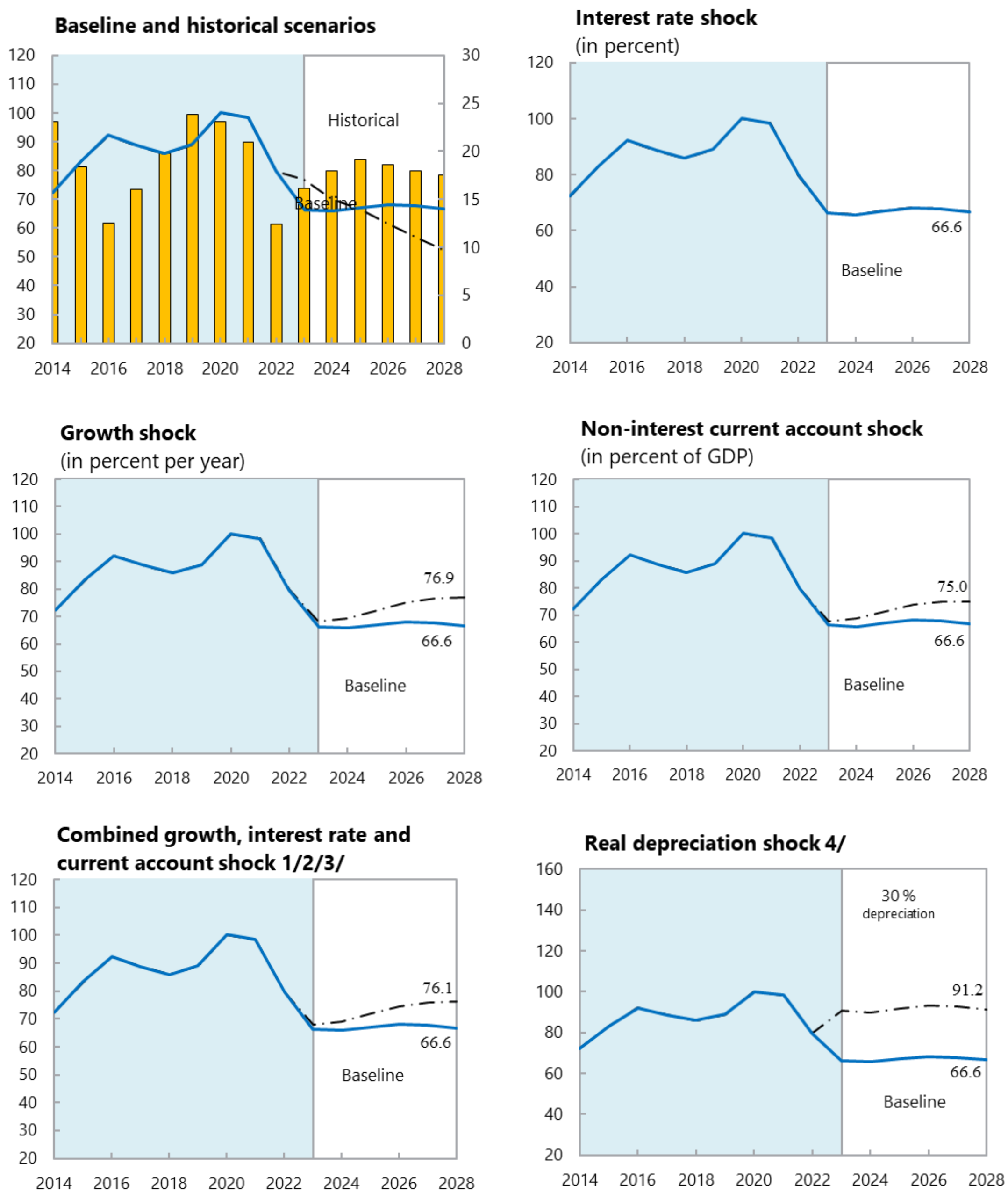
FX Intervention and Reserves Level

10. Background and assessment. Gross international reserves declined from US$ 4.1 billion at end-2022 to approximately US$ 3.6 billion at the end-2023, roughly equivalent to 2.4 months of prospective imports. In 2023, the reserve position was impacted by a deterioration in the current account and a decline in capital inflows. The authorities carried out US dollar purchases to build external buffers, for a total of approximately US$ 1.1 billion. Further dollar purchases of almost US$ 0.7 billion have been carried out to end-October 2024. Based on the IMF's reserve adequacy (ARA) metric, Armenia's gross international reserves are estimated to be adequate at 116 percent of the ARA metric at end-2023. Gross international reserves at end-2024 are expected to be at about $3.5 billion, which is about 107 percent of the ARA metric, and to remain above 100 percent of the ARA metric throughout the forecast horizon.

External Debt Sustainability

11. Armenia's external debt-to-GDP ratio has improved in 2023 and is expected to decline further under staff's baseline scenario. The debt-to-GDP ratio declined to 66.4 percent at end- 2023, from 79.8 percent at end-2022: the substantial decline can be attributed to the significant dram appreciation against the US dollar (see above). The declining trend is projected to slowdown in 2024 and 2025 in response to the pickup in external borrowing before stabilizing at just below 70 percent of GDP over the medium term. Results from standardized shocks highlight significant vulnerabilities, especially from variations in the exchange rate, with the external debt-to-GDP ratio increasing to above 90 percent following a one-time 30-percent real depreciation. Shocks to growth and the current account would also lead to higher external debt in the medium-term relative to the baseline. Nonetheless, external debt remains broadly resilient to interest rate shocks given the relatively high share of concessional financing in external public debt.

Figure AI.1. Armenia: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2023.

Figure AI.2. Armenia: External Debt Sustainability Framework, 2018–29
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	10-Year Historical Average	10-Year Standard Deviation	2024	2025	2026	2027	2028	2029	Debt-stabilizing non-interest current account 6/
Baseline: External debt	85.9	89.0	100.1	98.4	79.8	66.4			**70.6**	**71.7**	**70.6**	**69.5**	**68.4**	**67.2**	**-2.9**
Change in external debt	-2.9	3.1	11.1	-1.7	-18.7	-13.4			4.3	1.1	-1.1	-1.1	-1.1	-1.2	
Identified external debt-creating flows (4+8+9)	-1.2	-2.2	10.5	-8.0	-26.6	-14.7			0.9	-0.2	-1.1	-0.9	-0.8	-0.8	
Current account deficit, excluding interest payments	3.6	3.4	-0.4	-0.5	-3.3	-0.9			0.8	1.9	2.0	2.1	2.0	2.0	
Deficit in balance of goods and services	14.1	13.3	10.0	8.0	0.7	0.8			2.7	4.2	4.2	4.4	4.5	4.6	
Exports	39.5	42.5	30.2	36.1	51.7	59.3			68.4	49.2	46.0	44.4	42.7	41.4	
Imports	53.6	55.8	40.2	44.1	52.4	60.1			71.1	53.5	50.2	48.9	47.2	46.0	
Net non-debt creating capital inflows (negative)	-1.8	-1.9	-0.3	-2.5	2.1	-1.9			-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	
Automatic debt dynamics 1/	-3.0	-3.6	11.2	-5.0	-25.4	-11.9			1.2	-1.1	-2.2	-2.0	-1.9	-1.8	
Contribution from nominal interest rate	3.6	3.7	4.4	3.9	3.0	3.2			3.2	2.9	2.8	2.9	3.0	2.9	
Contribution from real GDP growth	-4.3	-6.0	6.8	-5.3	-8.8	-5.4			-3.9	-3.5	-3.0	-3.0	-2.9	-2.9	
Contribution from price and exchange rate changes 2/	-2.3	-1.3	0.1	-3.7	-19.6	-9.7			1.9	-0.6	-2.0	-1.9	-1.9	-1.9	
Residual, incl. change in gross foreign assets (2-3) 3/	-1.7	5.3	0.6	6.3	7.9	1.3			3.3	1.3	0.0	-0.2	-0.3	-0.5	
External debt-to-exports ratio (in percent)	217.1	209.2	331.5	272.6	154.4	111.9			103.2	145.7	153.5	156.5	160.3	162.2	
Gross external financing need (in billions of US dollars) 4/	2.5	3.3	2.9	2.9	2.4	3.9			4.4	4.8	5.0	5.7	5.6	5.8	
in percent of GDP	19.8	23.9	23.1	20.9	12.4	16.2			17.6	18.4	17.7	18.6	17.3	16.4	
Scenario with key variables at their historical averages 5/									**75.6**	**72.5**	**68.1**	**63.6**	**59.3**	**54.9**	**-4.1**
Key Macroeconomic Assumptions Underlying Baseline															
Real GDP growth (in percent)	5.2	7.6	-7.1	5.8	12.6	8.3	4.7	5.3	6.0	5.3	4.5	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	2.7	1.6	-0.1	3.8	24.9	14.0	3.7	9.7	-2.8	0.8	2.8	2.8	2.8	2.8	
Nominal external interest rate (in percent)	4.4	4.7	4.6	4.3	4.3	4.9	4.5	0.2	5.0	4.4	4.2	4.4	4.6	4.6	
Growth of exports (US dollar terms, in percent)	11.7	17.6	-34.1	31.3	101.1	41.7	20.6	35.1	19.0	-23.7	0.4	3.8	3.2	4.2	
Growth of imports (US dollar terms, in percent)	18.1	13.8	-33.2	20.4	67.1	41.6	13.6	28.9	22.0	-20.3	0.8	4.7	3.8	4.7	
Current account balance, excluding interest payments	-3.6	-3.4	0.4	0.5	3.3	0.9	0.0	2.8	-0.8	-1.9	-2.0	-2.1	-2.0	-2.0	
Net non-debt creating capital inflows	1.8	1.9	0.3	2.5	-2.1	1.9	1.7	1.6	1.0	1.0	1.0	1.0	1.0	1.0	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex II. 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. Increase flexibility in 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.	Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity 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.
Social discontent.	High inflation, real income loss, spillovers from conflicts (including migration), and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects,	High	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.

Risk	Description	Likelihood	Possible Impact	Policy Advice
	leading to policy uncertainty and market repricing.			
Global growth surprises.	• **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some 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. Enhance diplomacy. 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 tests and strengthen financial supervision and oversight.
Monetary policy calibration.	Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	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 elevated policy uncertainty (including 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, deteriorating debt sustainability in some AEs unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, loss of market access, and contraction of growth and social spending.	Medium	Armenia's debt is particularly vulnerable to growth and exchange rate risks. Higher global interest 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.	Fiscal policy should be prudent. Build fiscal buffers by raising revenues and prioritizing spending to guard against risks. Develop domestic financial markets to diversify sources of borrowing and reducing reliance on external debt.

Risk	Description	Likelihood	Possible Impact	Policy Advice
		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. Increase the flexibility of the exchange rate 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 (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	High	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.
Climate change	Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	Medium	Higher frequency and severity of natural disasters would cause severe economic damages, disrupt economic activities and put pressure on fiscal balances and debt.	Undertake a comprehensive climate risk assessment of Armenia and develop national adaptation policies to strengthen 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 support the establishment of new CBRs. Implement macroprudential measures. Closely monitor the financial sector and conduct stress tests. Continue improving the

Risk	Description	Likelihood	Possible Impact	Policy Advice
				effectiveness of NPL resolution approaches.
Geopolitical tensions and regional conflict:	Risks from tensions at the border with Azerbaijan and possibly renewed military conflict and the spillovers of the war in Ukraine, will slow down growth in the Armenian economy.	High	Armenia may continue to face greater uncertainty, higher fiscal spending need including on emergency social support and long-term integration of refugees, 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, resurgence in global and domestic food and energy prices, domestic credit growth, and monetary and fiscal policy miscalibrations could lead to resurgence 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 III. Illustrative Adverse Scenario

1. Armenia's susceptibility to adverse shocks remains a concern, with potential repercussions for its economy and foreign reserves. While the baseline outlook predicts satisfactory reserve levels, the occurrence of an adverse shock could amplify risks by unsettling the current account, disrupting capital inflows, eroding existing buffers, and inducing balance of payments pressures.

2. Adverse scenario. Staff simulates a contraction in real growth for major global economies including Russia, the Euro Area, the United States, and China, anticipated to commence in 2025Q1. 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 foreseen 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 in 2025; however, a rebound in growth rates is envisaged for the year 2026.[1]

- **Current account**. In an adverse scenario, goods exports contract by approximately 25 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 15 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 1.1 billion in 2025, 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.

3. Effects. The weaker current and financial account position would put downward pressure on the exchange rate, leading to a 30 percent nominal depreciation relative to the baseline in 2025. 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 (2022), "Republic of Armenia: Request for a Stand-By Arrangement" IMF Country Report 22/366.

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

	2025		2026		2027	
	Baseline	Adverse Scenario	Baseline	Adverse Scenario	Baseline	Adverse Scenario
National Income and Prices						
Real GDP (percent change)	4.9	2.5	4.5	3.5	4.5	4.5
CPI (Period average; percent change)	3.1	6.0	4.0	5.3	4.0	4.0
Overall Balance on a cash basis (in percent of GDP)	-5.5	-7.1	-4.5	-4.9	-4.3	-4.4
General Government Debt (in percent)	55.6	67.4	56.3	65.7	57.1	62.2
Current Account Balance (in percent of GDP)	-4.5	-7.9	-4.9	-6.8	-4.8	-5.8
Gross international Reserves (in millions of U.S. dollars)	3336	2149	3354	2422	3443	2684

Sources: National authorities and IMF staff calculations and projections.

4. Policies. The adverse scenario assumes that monetary tightening will control inflationary pressures from nominal depreciation. The central bank should remain ready to implement targeted interventions to avoid disorderly conditions in FX markets. The CBA should let the exchange rate depreciate to serve as a shock absorber in line with its inflation-targeting regime. The fiscal deficit would increase by about 1.6 percent of GDP in 2025 as the authorities let automatic stabilizers operate before reverting to its baseline projection in 2027. A larger budget deficit and the large dram depreciation imply a temporary increase in government debt in 2025 by approximately 10 percent relative to the baseline. Government debt would subsequently decline, consistent with a gradual appreciation of the currency and fiscal consolidation.

5. Implications. In a shock scenario, nominal gross international reserves would decline to approximately 76 percent of the ARA metric in 2025, 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 200 million in 2025 would bring the reserves close to 90 percent of the ARA metric by the end of the program. Further, financing from development partners amounting to USD 300 million would ensure that reserves exceed 100 percent of the ARA metric in 2026. The increase in external financing is assumed to be aligned with standard development partner disbursements in the context of a shock scenario. In the event of a significant downturn in the macroeconomic environment, the program modalities can be modified following a request from the authorities and subsequent Board approval.

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

	2025	2026	2027	2025	2026	2027
Current account	-1,187	-1,349	-1,392	-1,723	-1,046	-1,219
Exports G&S	12,213	12,488	12,402	9,029	11,009	11,105
Imports G&S	-13,216	-13,620	-13,619	-10,518	-11,847	-12,150
Incomes and transfers (net)	-184	-218	-174	-234	-207	-174
Capital & financial account	1,105	1,429	1,482	455	1,379	1,482
Overall balance	-82	79	91	-1,269	333	264
Financing						
Change in reserves (increase -)	216	-19	-89	1,402	-272	-262
Net use of Fund credit (repurchase)	-134	-61	-2	-134	-61	-2
Gross international reserves	3336	3354	3443	2149	2422	2684
As % of ARA metric	**104**	**105**	**107**	**76**	**80**	**82**
Under the proposed IMF-supported program:						
Proposed IMF financing in adverse scenario				171		
Assumed financing from development partners 1/				200	300	
Gross international reserves				2520	3093	3355
As % of ARA metric				**89**	**102**	**103**

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

Annex IV. Sovereign Risk and Public Debt Sustainability Assessment

Table AIV.1. Armenia: Risk of Sovereign Stress

Horizon		Mechanical signal	Final assessment	Comments
Overall		...	**Moderate**	The overall risk of sovereign stress is "moderate", reflecting moderate level of vulnerability in medium-term, and manageable risks in the long term.
Medium term		**Moderate**	**Moderate**	Medium-term risk is assessed as "moderate" in line with the mechanical signal. The debt stabilizes at a reasonable terminal level of 55.1 percent of GDP in the medium-term and the Gross Financing Needs (GFN) are manageable. However, there is considerable uncertainty around the baseline - as reflected in the "high risk" of fan chart Index - as the debt is vulnerable to growth and exchange rate risks.
	Fanchart	**High**	...	
	GFN	**Moderate**	...	
	Stress test	Cont. Liabty. Nat. Diast.	...	
Long term		...	**Moderate**	Long-term risks to debt may arise from large amortizations and climate adaptation needs.
Sustainability assessment 2/			Sustainable	The projected debt path is expected to stabilize and GFNs will remain at manageable levels, conditional on the fiscal consolidation and policy advice recommended under the baseline. The overall debt is assessed as sustainable.
Debt stabilization in the baseline				Yes

DSA Summary Assessment

Commentary: The overall risk of sovereign stress is "moderate", and the debt is assessed as "sustainable" in Armenia. The debt-to-GDP ratio is expected to increase to 55.6 percent of GDP by 2027 before declining to 55.1 percent of GDP by 2029. Gross Financing Needs (GFN) are projected to remain at manageable levels of 10.9 percent of GDP on average in the medium-term. The uncertainty around the baseline - reflected by the width of the Fan chart and "high risk" of Debt Fan Chart Index (DFI)- is considerable in the medium-term, as the debt is highly vulnerable to growth and exchange rate shocks. Fiscal consolidation to build buffers, developing the domestic debt market, and ensuring adequate foreign currency financing will help guard against these risks. In the long-term, large amortizations and climate adaptation needs may add to the risks to debt profile; however, such risks are expected to be not significant for Armenia.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure AIV.1. Armenia: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					No	
2. Subsectors included in the chosen coverage in (1) above:						

					#	Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG		1	Budgetary central government	Yes	
					2	Extra budgetary funds (EBFs)	No	Not applicable
					3	Social security funds (SSFs)	No	Not applicable
					4	State governments	No	Data limitations
					5	Local governments	No	Data limitations
					6	Public nonfinancial corporations	No	Cont. Liab. test activated
					7	Central bank	No	
					8	Other public financial corporations	No	Data limitations

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

					Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

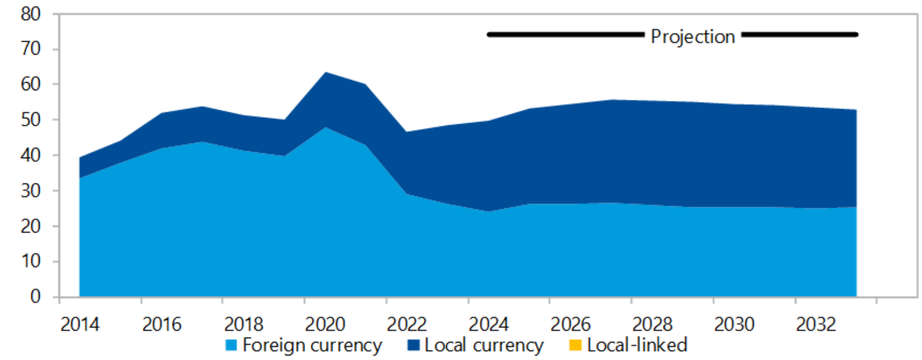
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The debt coverage is central government. Social Security Funds in Armenia are private entities therefore not included in the central government debt coverage. Data on state and local government debt is not available to the staff and not published by the authorities as part of the GG debt. However, authorities have initiated legislative changes to broaden the definition of General Government debt to include debt of state and local governments, public sector non-financial organizations and public sector financial organizations and intend to collect and publish the broader general government debt data in future.

Figure AIV.2. Armenia: Public Debt Structure Indicators

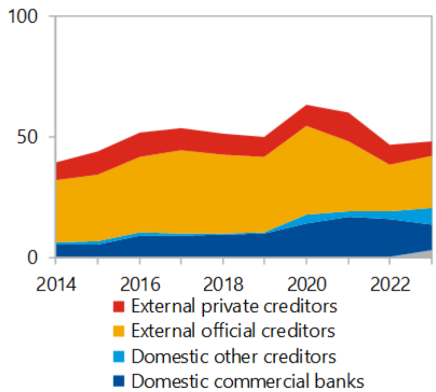
Debt by currency (Percent of GDP)

Debt by Currency (Percent of GDP)



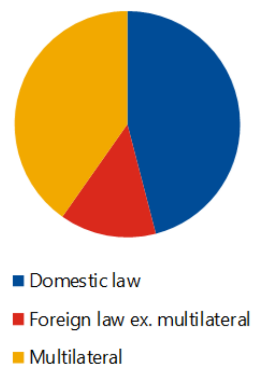
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



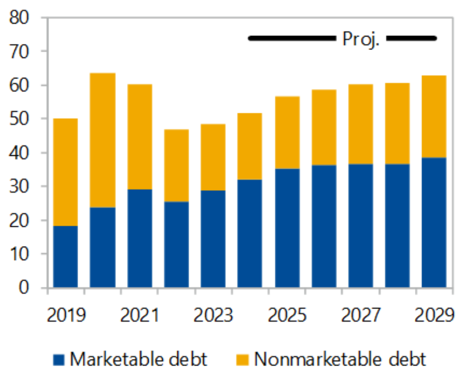
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



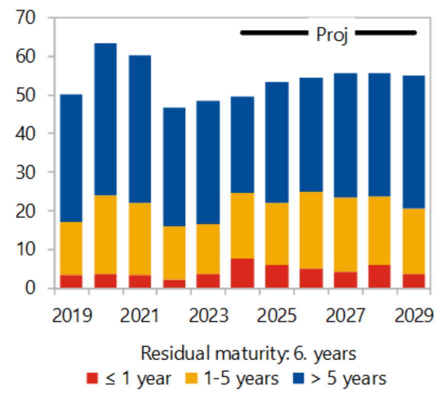
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



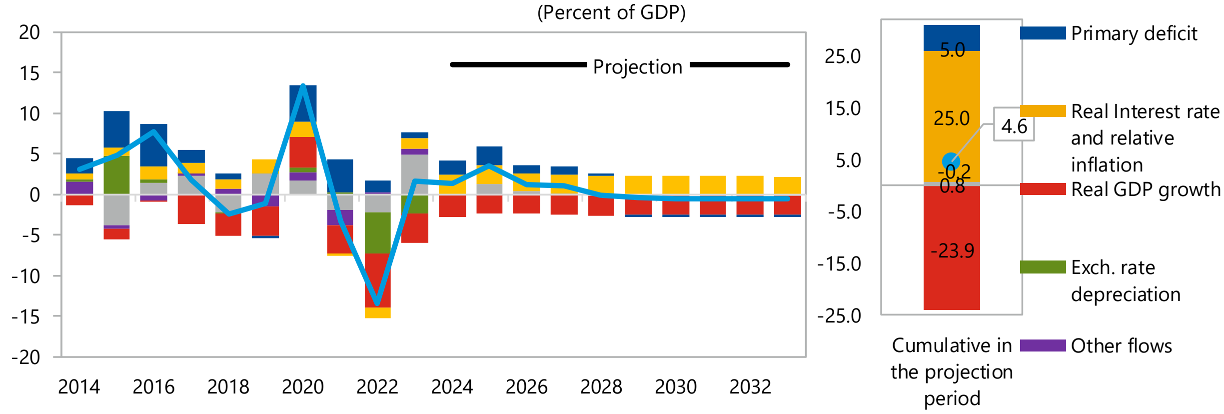
Note: The perimeter shown is general government.

Commentary: The share of foreign currency debt is projected to decrease from 54 percent of GDP in 2023 to 46 percent of GDP in 2029. While this reduces reliance on external debt and vulnerability of debt to exchange rate risk, there is a need to mobilize higher foreign currency financing to support national security and infrastructure development as envisaged in the authorities' 2025–27 Medium-Term Debt Strategy (MTDS) and the Medium-Term Expenditure Framework (MTEF). The share of marketable debt is projected to increase, reflecting a potential $500 Eurobond issuance in 2025 and higher domestic market borrowing.

Table AIV.2. Armenia: Baseline Scenario
(Percent of GDP unless indicated otherwise)

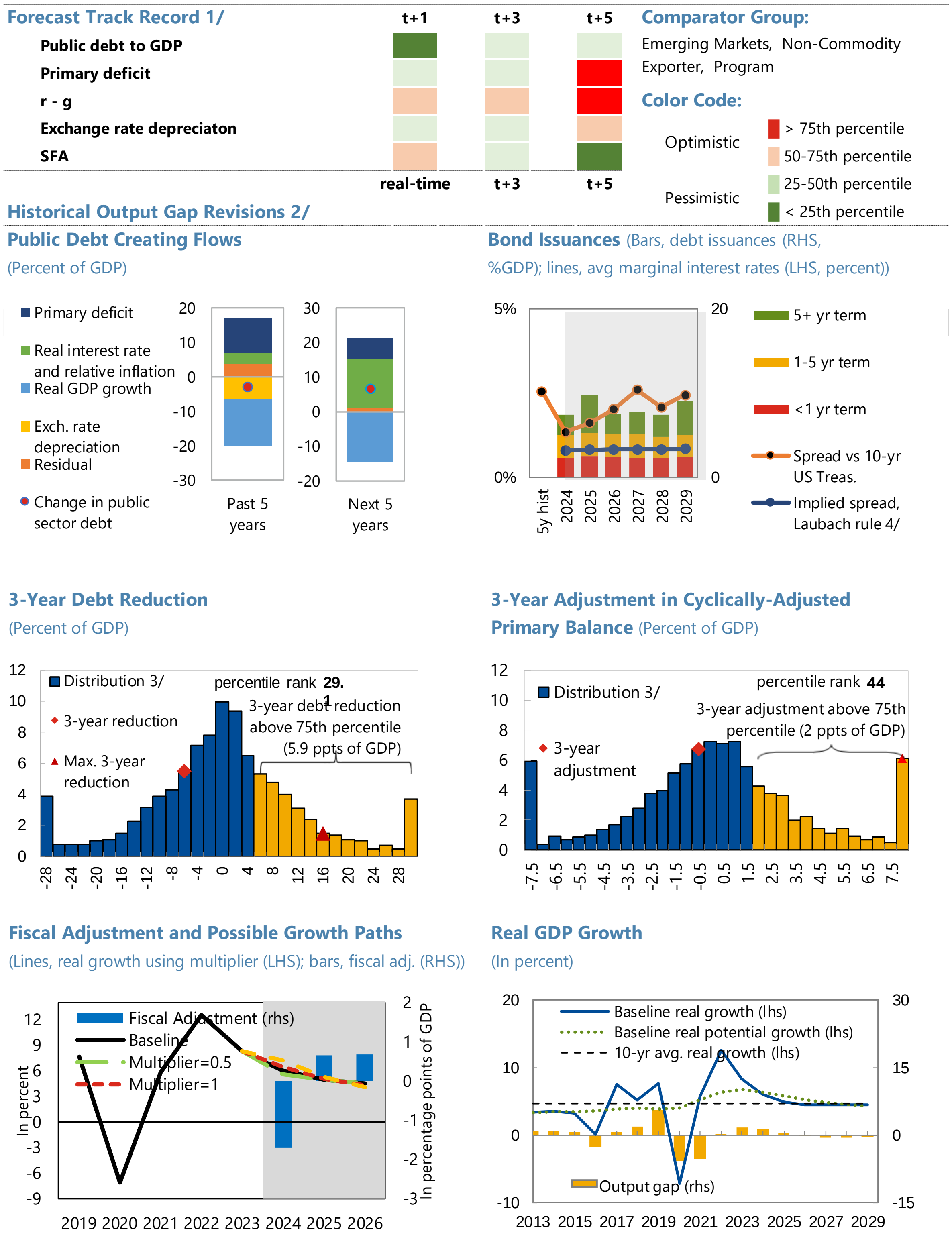
	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	48.4	49.7	53.3	54.5	55.6	55.5	55.1	54.6	54.0	53.5	52.9
Change in public debt	1.7	1.3	3.6	1.3	1.1	-0.1	-0.4	-0.5	-0.5	-0.5	-0.6
Contribution of identified flows	-3.2	1.4	2.2	0.9	1.0	0.1	-0.3	-0.4	-0.4	-0.3	-0.4
Primary deficit	0.7	1.7	2.3	1.0	1.1	0.2	-0.2	-0.3	-0.3	-0.3	-0.3
Noninterest revenues	25.0	25.2	25.3	25.9	25.9	25.5	25.4	25.5	25.5	25.5	25.5
Noninterest expenditures	25.7	26.9	27.5	26.9	27.0	25.7	25.2	25.2	25.2	25.2	25.2
Automatic debt dynamics	-4.6	-0.3	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	-0.1
Real interest rate and relative inflatio	1.3	2.4	2.3	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.2
Real interest rate	1.6	2.7	2.0	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.7
Relative inflation	-0.2	-0.2	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Real growth rate	-3.6	-2.8	-2.3	-2.3	-2.3	-2.4	-2.4	-2.4	-2.3	-2.3	-2.3
Real exchange rate	-2.3	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.7	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.7	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	4.9	0.0	1.3	0.4	0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Gross financing needs	9.2	9.3	12.9	10.7	10.8	10.2	11.7	9.6	11.9	9.5	10.6
of which: debt service	8.5	7.6	10.6	9.7	9.6	10.0	11.9	9.9	12.2	9.8	10.9
Local currency	5.4	4.6	6.5	6.8	7.1	7.3	7.6	6.8	7.2	6.3	7.2
Foreign currency	3.1	3.0	4.0	2.9	2.6	2.6	4.3	3.1	5.0	3.5	3.6
Memo:											
Real GDP growth (percent)	8.3	6.0	4.9	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Inflation (GDP deflator; percent)	2.7	1.4	3.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Nominal GDP growth (percent)	11.2	7.5	8.4	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Effective interest rate (percent)	6.4	7.3	7.7	7.5	7.6	7.6	7.5	7.6	7.5	7.6	7.4

Contribution to Change in Public Debt
(Percent of GDP)



Commentary: Government debt increases from 48.4 percent of GDP in 2023 to 55.6 percent of GDP in 2027, thereafter following a gradual downward path to reach 52.9 percent of GDP by 2033. GDP growth is projected to be the key contributor to the declining debt to GDP ratio in the medium-term. The higher contribution of real interest rates towards increasing debt in the projection horizon reflects higher market borrowing. Gross Financing Needs on average remain at a comfortable level of 10.9 percent of GDP.

Figure AIV.3. Armenia: Realism of Baseline Assumptions

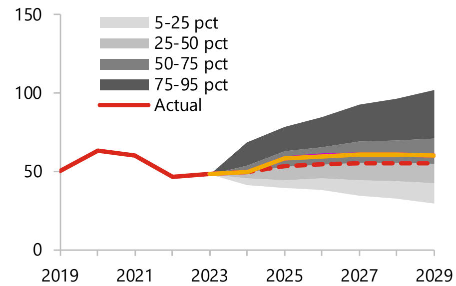


Commentary: Realism analysis does not point to major concerns. Past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within the norms.

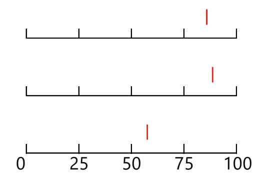
Source: IMF staff.

Figure AIV.4. Armenia: Medium-term Risk Analysis

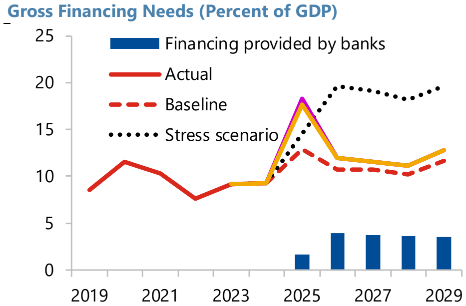
Final Fanchart (Percent of GDP)



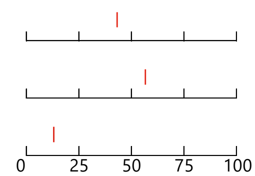
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	72.5	1.1	
Probability of debt non-stabilizaiton *(percent)*	45.4	0.4	
Terminal debt-to-GDP x institutions index	35.2	0.8	
Debt fanchart index (DFI)		2.2	
Risk signal: 3/		**High**	



Gross Financing Needs (Percent of GDP)



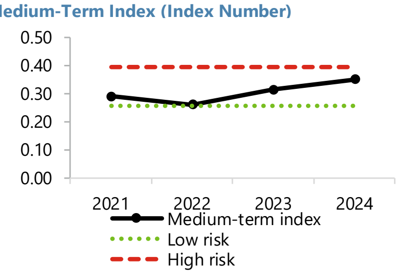
	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	10.9	3.7	
Initial Banks' claims on the gen. govt *(pct bank assets)*	14.6	4.7	
Chg. In banks' claims in stress *(pct banks' assets)*	7.6	2.5	
GFN financeability index (GFI)		11.0	
Risk signal: 4/		**Moderate**	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	2.2	0.5	0.5	0.2
GFN finaceability index	11.0	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**Moderate**		

Prob. of missed crisis, 2024-2029, if stress not predicted: 27.3 pct.

Prob. of false alarms, 2024-2029, if stress predicted: 20.5 pct.

Commentary: Medium-term risk is assessed "moderate" in line with the mechanical signal. The Debt Fan Chart Index (DFI) shows a "high risk" mechanical signal, while the Gross Financing Needs Index shows "moderate risk". The debt is stabilizing at a moderate terminal level of 55.1 percent of GDP in the medium-term. Gross Financing Needs (GFN) are modest and stable on average at 10.9 percent of GDP in the medium term. However, a broad fan chart width – reflecting uncertainty around the baseline – is contributing to a relatively higher Debt Fan chart index score. This is because Armenia's debt has historically been volatile due to significant vulnerability to growth and exchange rate risks. Customized contingent liabilities (of 6.1 percent of GDP from the SOEs/PPPs) stress test and natural disaster stress test are triggered, which could raise GFN by 5–10 percentage points of GDP in the medium term, if materialized. Fiscal consolidation to build buffers, adhering to the fiscal rules, progressing on fiscal-structural reforms under the SBA, mobilizing adequate external foreign currency financing and developing the domestic debt market would help guard against growth, exchange rate and fiscal risks to debt in the medium-term.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, program.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure AIV.5. Armenia: Triggered Modules

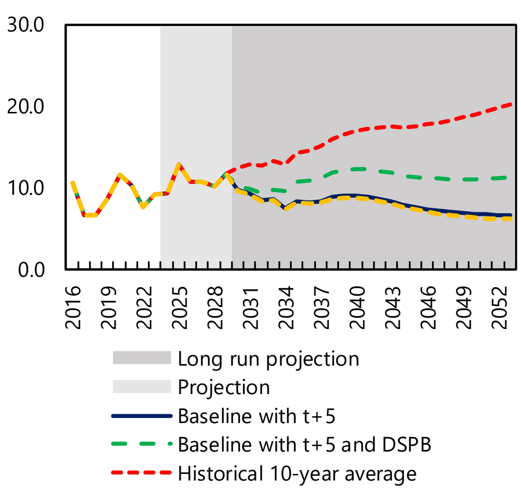
Large amortizations	Pensions	**Climate change: Adaptation**	Natural Resources
	Health	Climate change: Mitigation	

Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

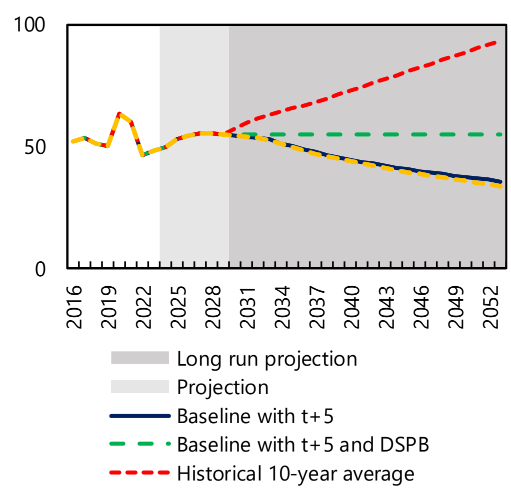
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Variable	2029	2033 to 2037 average	Custom Scenario
Real GDP growth	4.5%	-16.4%	4.5%
Primary Balance-to-GDP ratio	0.2%	0.3%	0.3%
Real depreciation	-2.7%	21.5%	-2.5%
Inflation (GDP deflator)	4.0%	-16.8%	4.0%

GFN-to-GDP Ratio

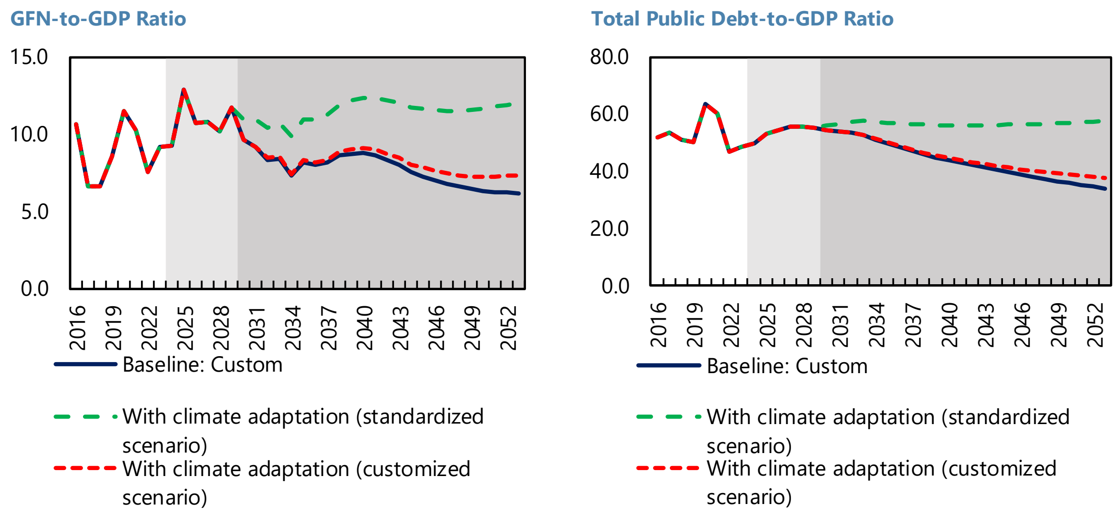


Total Public Debt-to-GDP Ratio



Commentary: Amortization payments are projected to increase including due to Eurobond maturities of $500 million in 2029 and $750 million in 2031 and a large share of long-term debt in existing debt profile. The historical 10-year average scenario underscores the importance of adhering to the fiscal consolidations targets and policies under the SBA. Overall, considering a large share of multilateral and bilateral loans in projected external debt and the capacity of the domestic banks and non-bank sector to meet the domestic financing needs, the risks are expected to remain manageable.

Figure AIV.6. Armenia: Climate Change: Adaptation



Commentary: In the Baseline scenario, the climate adaptation costs would slightly increase the debt and GFN levels in the medium-term before declining below the 2023 levels in the long-term. The standardized climate adaption module adds a cost of 1.0 percentage points of GDP increase in primary balance per year over the long term, which would raise the peak levels of GFN to 10.4 percent of GDP by 2043 and put debt on a rising path to around 60 percent of GDP by 2052. A more plausible/moderate customized test based on the "unmitigated climate adaptation scenario" of the IMF TA report on "Quantifying fiscal risks from climate change" assumes a 0.4 percentage points of GDP increase in primary balance over the long-term and shows that the debt and GFN levels may surge in the medium-term but then gradually converge to a firm declining path in the long run. Nevertheless, this is a moderate scenario and in case of extreme weather conditions, fiscal costs even higher than those reflected in the standard scenario may materialize, requiring greater public finances for climate adaptation.

Table AIV.3. Armenia: Decomposition of Public Debt and Debt Service by Creditor, 2023 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	48.4	11294.61	100	48.4	include external guarantees					
External (including guarantees)	5950.69	52.7	25.5	6106.64	54.1	26.2	746.51	657.78	935.18	3.2	2.6	3.5
Multilateral creditors /2	3590.06	31.8	15.4	3590.06	31.8	15.4	363.24	473.37	451.15	1.6	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	0.5	0.4	0.4
o/w: list largest two creditors												
RF	526.79	4.7	2.3	526.79	4.7	2.3						
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	22.9	5188.0	45.9	22.2	941.62	1050.61	957.50	4.0	4.2	3.6
Held by residents, total	5343.9	47.3	22.9	4809.6	42.6	20.6						
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	20.8	4853.1	43.0	20.8	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 V. Macroprudential Measures to Mitigate Real Estate Sector Risks in Armenia

1. **Housing prices in Armenia have been increasing rapidly posing risks to the banking system.** Armenia's house prices have increased by an average of 11 percent over the last three years, leading to an estimated house price overvaluation nearing 30 percent.[1] Over the past four years, banks' mortgage portfolios have more than tripled, and the share of loans to the construction sector within banks' portfolios has nearly doubled.

2. **The authorities have implemented several measures to address financial sector risks associated with the housing market**. In April 2022, the CBA introduced Loan-to-Value (LTV) ratio limits of 90 percent for loans in dram and 70 percent for FX loans. The CBA also increased the countercyclical capital buffer rate to 1.5 percent of risk-weighted assets effective August 1, 2023, and to 1.75 percent effective May 1, 2025, enhancing resilience against market risks and curbing lending growth. The CBA is also refining its macro-financial stress testing framework, gathering more granular data from property developers, and focusing efforts on microprudential risk assessment. To reduce bank risks associated with the construction industry, a Civil Code amendment has limited the use of funds in escrow accounts by property developers as of September 2023. Furthermore, as of March 2023 the Government introduced legislation prohibiting FX mortgages for residents with income in national currency.

3. **Macroprudential measures in Armenia could be strengthened further, drawing on international experience.** In recent years, many peer countries have implemented macroprudential policy tools to manage risks in the residential real estate sector (Table AV.1). The majority of these countries have introduced a combination of borrower-based measures (BBMs), such as loan-to-value (LTV) limits, debt service-to-income (DSTI) caps, and restrictions on loan maturities. Additionally, many countries have adopted capital-based measures (CBMs), such as risk-weights or capital buffers.[2] To enhance banks' resilience, the CBA could introduce borrower-based measures such as a lower LTV ratio—especially for second mortgages—caps on the volume of new loans with high LTV ratios, or a DSTI or debt-to-income (DTI) cap and caps on the volume of new on loans with high DSTI/DTI ratios. Cross-country experience shows that income-based measures are more powerful than LTVs in strengthening lender and borrower resilience, as they align loan eligibility with repayment capacity.[3]

[1] See Central Bank of Armenia (2024), Financial Stability Report 2023.

[2] See Lang, Behn, Jarmulska, and Lo Duca (2022), "Real estate markets, financial stability and macroprudential policy", European Central Bank Macroprudential Bulletin, October 2022.

[3] See BIS (2023), "Macroprudential policies to mitigate housing market risks", Committee on the Global Financial System Papers No 69.

Table AV.1. Armenia: Macroprudential Policy Measures to Tackle Systemic Risks

	Armenia	Czech Republic	Estonia	Georgia	Kazakhstan	Latvia	Lithuania	Moldova
I. Broad-Based Tools Applied to the Banking Sector								
Countercyclical capital buffer	1.75%*	1.25%	1.50%	1%	yes	0.5%	1.0%	yes
Capital conservation buffer	2.50%	2.50%	2.50%	no	yes	2.50%	2.50%	yes
Limit on leverage ratio	no	yes	yes	yes	no	yes	yes	no
Forward-looking loan loss provisioning requirement	no	yes	yes	yes	yes	yes	yes	no
Limit on distributions	yes	no	no	yes		no	no	no
II. Borrower-Based Tools								
Household sector capital requirements	yes	no	yes	no	yes	yes	yes	yes
Loan restrictions or Borrower eligibility criteria	yes	yes	yes	yes	yes	yes	yes	yes
Cap on loan-to-value ratio	90% and 70%*	90%*	85%*	yes	no	70% and 85%*	70%*	yes
Cap on loan-to-value ratio differentiated by currency	yes	no	no	yes		no	yes	no
Cap on loan-to-income ratio	no	9 times*	no	no	no	6 and 8 times*	no	no
Cap on debt-service-to-income ratio	no	no	50%*	yes	yes	45%*	40% and 50%*	yes
Limit on amortization periods	no	yes	yes	yes	no	yes	yes	no
Restrictions on unsecured loans	no	yes	no	no	no	no	yes	no
Exposure caps on household credit	no	yes	yes	yes	yes	no	yes	yes
Foreign-currency-denominated loans	no	no	no	yes	yes	no	no	yes
Cap on the volume of new loans with high LTV ratios	no	yes	yes	no	no	no	no	yes
Cap on the volume of new loans with high LTI ratios	no	yes	no	no	no	no	no	no
Cap on the volume of new loans with high DSTI ratios	no	no	yes	no	no	no	yes	no

Source: IMF Macroprudential Policy Survey; European Systemic Risk Board; National Bank of Georgia.

Note: Information on measures taken at least through the end of June 2023.
The sign (*) means that exceptions and/or further details apply. Please refer to the national authorities' websites for details.

Annex VI. The Role of the Fiscal Authority in Bank Resolution[1]

1. **Orderly resolution of banking institutions requires sufficient and readily available funding.** At the point at which a bank must be resolved, its liquidity and capital buffers will typically have been eroded. Resolution funding may be needed to ensure an orderly resolution, for example by backing a transfer of deposits to another bank, purchasing impaired assets, or injecting liquidity after a bail-in of creditors.

2. **Pre-established arrangements, defined in laws and regulations, should allow the resolution authority to promptly mobilize the financial resources necessary**. The FSB Key Attributes accept three types of funding arrangements: (1) privately (industry)-financed deposit insurance fund (DIF), (2) privately funded resolution fund (RF), or (3) temporary access to government funds with a mechanism for *ex post* recovery from the industry for costs incurred by the government. The Key Attributes afford significant flexibility in the design of resolution funding arrangements, including whether they should be funded *ex ante* or *ex post* and their optimal size.

3. **A resolution framework entails a comprehensive legal, institutional, and operational framework for maintaining financial stability while mitigating the risk of government bailouts.** The supervisor, the central bank, the deposit insurance authority, the resolution authority, and the ministry of finance are expected to take measures that are consistent with their own mandates, but coordinated and commensurate to the financial stability concerns.

4. **Deposit insurance schemes are typically insufficient to meet resolution funding needs in systemic circumstances.** The primary objective of a DIF is to protect insured deposits, whether in a liquidation or in a resolution, even if a paybox plus mandate is established in the law[2]. Like all insurance schemes, DIFs are normally calibrated to cover losses in a fraction of the insured pool and not to deal with the failure of a large systemic bank or a generalized banking crisis. These events would typically require significantly more resources than those available in a paid-in DIF.

5. **A separate RF can provide resolution funding when the DIF funds are not available for such purposes.** An additional fund can also be used to "top up" the funding available from the DIF, under a paybox plus mandate, and pursue objectives that would exceed the legal mandate of the deposit insurance scheme, e.g., protecting uninsured creditors deemed systemic, preventing contagion, and preserving financial stability during banking resolution.

6. **A RF requires a government backstop, supported by measures and mechanisms to enhance its credibility, and mitigate moral hazard risk.** For a start, a government backstop to the fund, triggered by clearly stipulated conditions, among them the need for public funds to preserve financial stability, and subject to subsequent recovery from the industry, is necessary to enhance credibility. In the case where a fund may take a long time to build up, clear procedures should be

[1] This annex is based on two IMF publications: "Resolution Funding: Who Pays When Financial Institutions Fail?" and "Managing Systemic Banking Crises: New Lessons and Lessons Relearned."

[2] A paybox plus mandate allows the DIF's funds to fund resolution by a separate authority.

established in law and in regulations, or via an agreement between the resolution authority and the fiscal authority to enable the quick provision of temporary funding by the government (e.g., standing budgetary authorization or credit line for contingency purposes). The legal and operational framework for recovering the costs through *ex post* mechanisms (e.g. proceeds from sale of the failed bank or levies on certain creditors) should be put in place. The institution authorized to manage the resolution funding arrangements, for example the resolution authority, should be well governed and operationally independent, with arrangements for information sharing with other relevant authorities, and for accountability. The decision to provide government funding, however, should rest solely with the fiscal authority. To minimize moral hazard, a RF should be supported by effective resolution regimes that allow for loss allocation to shareholders as well as subordinated and potentially senior unsecured and uninsured creditors; differentiated premiums, and price incentives to exit from the use of public backstops and return to market financing as early as feasible. Over time, industry contributions or recoveries from assets of the failed bank would enable repayment of the public backstop.

7. As the lender of last resort, a central bank should have the legal power and the discretion to provide liquidity support to a bank in resolution, subject to adequate safeguards. A bank in resolution may need liquidity to ensure the continuation of critical functions, which the central bank in principle, should be able to provide, subject to a determination of solvency and viability. The associated assessment of the condition of a bank in resolution depends largely on the resolution measures being implemented by the resolution authority, their feasibility, funding, and timeliness. Nonetheless, it should be up to the central bank to decide on the provision of emergency liquidity assistance (ELA), including any safeguards that it may seek from the government. For example, ELA to a bank in resolution may need to be backed by an indemnity or a guarantee from the government to protect the central bank balance sheet when there is significant uncertainty over the (new) bank's ability to repay.

8. The critical role of the state as a backstop for bank resolution highlights the need for ample fiscal space to address unexpected fiscal triggers. As funding needs in resolution are potentially large, access to public resources—subject to robust safeguards—is a cornerstone for safeguarding financial stability and preserving critical functions necessary for the functioning of the financial system. Cross-lending between the DIF and the RF cannot guarantee the availability of sufficient resources in systemic scenarios, due to the inherently limited resource envelope of the DIS, and otherwise exposes the DIS to interventions that exceed its core (limited paybox) mandate. Sound fiscal accounts and ample fiscal space would ensure that interventions would not jeopardize the sustainability of the fiscal position, enhancing the credibility of the fiscal backstop. In addition, strong institutional frameworks, including through a credible medium-term fiscal framework and fiscal rules, would cement investors' confidence in the reliability of fiscal interventions and fiscal sustainability. To protect taxpayers from potentially incurring large losses, recovery mechanisms need to be clearly and explicitly legislated.

9. Fiscal risks could be minimized by *ex ante* processes and procedures. Ensuring effective communication and data exchange among financial institutions, regulators, and government bodies helps identify emerging risks early and coordinate timely responses. This can be done through a financial stability committee that can provide a structured approach to monitoring and managing systemic risks while facilitating collaboration among key stakeholders, issuing warnings or recommendations as needed, or via and MoU or joint regulations agreed between the resolution authority and the fiscal authority. Finally, beefing up the fiscal risk management functions can help better anticipate and manage potential financial sector-related contingent liabilities.

Annex VII. Armenia's National Export Strategy

1. A national export strategy (NES) will support Armenia's ambition to boost growth, productivity, and employment. With limited local demand and highly concentrated export destinations, a well-designed and executed NES would help Armenia enhance its resilience to shocks, diversify the economy, and increase potential growth. The authorities' draft export strategy includes a detailed technical analysis identifying major bottlenecks and a five-pillar approach to addressing them.

2. Numerous bottlenecks inhibit Armenia's export potential. An increasingly complex geopolitical landscape, lack of access to maritime shipping and efficient terrestrial logistics, lack of compliance with international standards, and burdensome regulatory environment hinder export growth. Furthermore, concentrated export structure, including low export complexity and limited destination markets, creates vulnerability and exposes the economy to increasing risks of a shock to commodity markets and economic activity in Russia. Therefore, in addition to thoroughly exploiting the existing trade agreements such as the Eurasian Economic Union (EAEU) and Armenia-EU trade deal, Armenia would need to expand its export destinations and seek new markets for its products.

3. The draft strategy proposes a holistic approach to addressing these bottlenecks. It identifies five key policy pillars: (i) creating a conducive environment to enhance competitiveness by improving the domestic business environment and international trade relations; (ii) addressing infrastructure and logistic challenges by creating transit routes and trade corridors and alleviating transport bottlenecks; establishing cargo flights and warehouses; and investing in trade technology and innovations; (iii) enhancing exporters' capacity and promoting the development of sophisticated products and services; (iv) diversifying export destinations and products to expand opportunities and enhance resilience of Armenia's exports to shocks to a specific market or product; and (v) strengthening export promotion programs and expanding access to export finance and insurance schemes.

4. Finalizing the strategy should ensure that key policy measures comply with Armenia's WTO commitments, are nondiscriminatory, feasible, and focus on horizontal reforms and addressing market failures. These measures should aim to improve regulatory institutions, expand export markets and products, and improve logistics:

- *Institutions.* Upgrade regulatory quality by improving the business environment and reducing bureaucratic hurdles for exporters. Strengthen institutional frameworks at the MOE and relevant MDAs. Create a centralized task force responsible for overseeing export promotion.
- *Markets.* Leverage existing international trade relations and agreements (e.g., EAEU and Armenia-EU deals) and seek new bilateral agreements if feasible. Create trade attachés across Armenian Embassies to effectively harness the potential of the large diaspora communities. Seek new trade routes through traditional and non-traditional partners.

- *Products and quality.* Improve ISO compliance and product labelling and traceability. Invest in technology and innovation to improve product quality, efficiency, and differentiation, including food safety.

- *Logistics infrastructure.* Establish regular flights from Armenia to key export destinations to improve connectivity. Foster new partnerships with global e-commerce platforms and digital marketplaces.

Appendix I. Letter of Intent

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

Yerevan, November 21, 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.** After remarkably strong growth in the past two years despite being hit by several shocks, growth has started decelerating to more sustainable levels with real GDP growth of 6.5 percent in 2024H1. Inflation has been moderate while inflation expectations remain broadly anchored despite high uncertainty. Fiscal and external positions remain strong, and the banking system is well capitalized and liquid. We continue to work towards the integration of over 100,000 refugees displaced from Nagorno Karabakh, including designing sustainable housing solutions. We met all quantitative performance criteria (QPC) and indicative targets (IT) for end-June 2024 and made steady progress toward meeting the structural benchmarks. We also completed a staff consultation on the inflation outlook in line with the monetary policy consultation clause (MPCC).

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 the following modifications to the program: (i) the end-December MPCC be lowered, reflecting the updated projections for global food and commodity prices; (ii) the end-December QPC on budget domestic lending be increased marginally on account of nuclear-power plant related lending; (ii) the end-June structural benchmark requiring the submission to parliament of a draft law for an enhanced bank resolution framework be rescheduled to March 2025 to allow consultation among relevant stakeholders about the government's role in the resolution process; (iii) the September 2024 structural benchmark to approve an export strategy be rescheduled to March 2025 to allow time to prioritize policies under the strategy; (iv) QPCs be set for end-June 2025; and (v) 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 fourth 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 fourth 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 May 22, 2024, 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 economic activity remains strong. Real GDP grew by 6.5 percent in 2024H1 supported by domestic demand. Employment growth has remained steady, and inflation has gradually picked up to 1.3 percent y/y in August, driven by food and transportation prices. The current account deficit has widened, as tourism and remittances continue to normalize. Nonetheless, capital inflows have continued to support the dram while gross international reserves grew to US$3.5 billion in August. The overall fiscal balance recorded a surplus of 0.1 percent of GDP in 2024H1, and central government debt remains moderate at 48.4 percent of GDP. Banks continue to post strong capital and liquidity buffers, and their profitability remains high given buoyant credit growth.

3. We expect growth to converge to its potential by 2026. The gradual slowdown of trade, tourism, and financial inflows will lead to a continued deceleration of growth through 2025. In the medium term, fiscal and monetary policies are expected to steer growth to its long-term trend. Inflation is expected to remain low in the short-term and gradually converge to the CBA's inflation target in the medium-term. Growth could also surprise on the upside in the event of stronger than anticipated export receipts, and in the case of faster implementation of structural reforms planned under the 2021–26 Government Program and refugee integration. Risks to this outlook include geopolitical tensions, potential slowdowns in the growth of trading partners, abrupt reversals in capital inflows, and a resurgence in global food and energy prices.

B. Economic Policies for the Remainder of 2024 and Beyond

Fiscal Policy

4. We are committed to fiscal prudence and setting our 2025 budget targets in line with the SBA-supported program. We will meet our 2024 budget targets by curtailing and reprioritizing spending as necessary in response to lower than anticipated revenues. Our 2025 budget will accommodate ongoing spending needs on social and housing support to refugees from Nagorno-Karabakh, national security, social protection, education, and infrastructure. At the same time, this budget will ensure that government debt remains at a moderate level. To this end, as a **prior action**, we will adopt a 2025 budget with an overall deficit of 5.5 percent of GDP. Any revenue over-performance in 2025 will be primarily allocated to improve fiscal buffers.

5. In the medium term, the fiscal path will ensure fiscal sustainability, while supporting Armenia's economic development. We will continue prioritizing spending on national security, refugee integration, social protection, and infrastructure. In collaboration with our development partners, we are developing sustainable housing solutions for vulnerable Armenians, finalizing the design of the Universal Health Insurance (UHI), and will pilot a new family benefits system during 2026–27. Over the medium term, expenditure prioritization and the introduction of new tax policies will support fiscal consolidation in line with the fiscal rules. To this end, we will adopt a 2026–28 Medium-Term Expenditure/Fiscal Framework (MTEF/MTFF) targeting an overall fiscal deficit of 4.5 percent of GDP in 2026—including an explanation of key policies/measures required to achieve it—followed by a further decrease in the overall fiscal deficit in 2027–28 (***May 2025 Structural Benchmark***). In line with the 2026–28 MTEF/MTFF, to support the preparation of the 2026 budget with specific expenditure rationalizations targeting inefficiencies and redundancies, following IMF CD, we will conduct a study to identify a menu of 1.0 percent of GDP rationalization measures in primary current expenditures (***July 2025 Structural Benchmark*).**

6. We continue strengthening revenue mobilization to accommodate growing spending needs while ensuring fiscal sustainability.

i. *Tax Policy*. We have made progress in identifying and implementing tax policies that will yield additional revenue of at least 0.75 percent of GDP by 2026. Already legislated increases in turnover tax rates, environmental taxes on imported vehicles, and other excises are expected to yield 0.3 percent of GDP in additional tax revenues in 2025. We are also streamlining the activities allowed under the turnover tax regime, continuing to phase out the mortgage interest tax credit and other income tax exemptions, and will begin preparations for introducing a capital gains tax. To limit tax base erosion, we will consider granting new tax exemptions only in exceptional and rare cases. In such cases, we will provide a justification, a comprehensive cost assessment, and a set of measures, as necessary, to prevent potential revenue loss from any new planned tax incentives (***Continuous structural benchmark, TMU ¶ 17***).

ii. *Revenue administration*. Strengthening revenue administration capacity and reducing the informal economy will support our medium-term tax-to-GDP objectives. The phased rollout of the universal PIT declaration began in January 2024 and will be mandatory for all individual taxpayers by 2026. To ensure the effectiveness of this reform, we have submitted tax code amendments to parliament empowering the SRC to audit all natural persons, including by using third-party data sources and indirect tax assessment methods. Moreover, to modernize our audit program and reduce identified tax gaps, we will seek a diagnostic assessment of our toolkits, including an evaluation through the Tax Administration Diagnostic Assessment Tool (TADAT).

7. We are steadily advancing our public financial management reforms.

i. *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. As a first step, we have submitted to parliament an amendment to the Budget System Law (BSL) aligning the definition of public investment projects in the BSL with that of the PIM decree. Furthermore, to support the integration of PIM into the budgetary process and improve implementation capacity, we will transfer its institutional management to the MOF. In doing so, we will ensure that key PIM functions, including those from public-private partnerships (PPP), are organized within a clear and consistent framework that preserves existing capacity and is in line with good international practice. Specifically, we will establish: (i) a strong integration of the PIM functions into the budget process; (ii) one central gatekeeper, knowledge hub, and coordinator for public investment; and (iii) a unified approach to investment that does not depend on its financing mechanism. We will continue to engage with IMF CD to inform the design of these functions.

ii. *Fiscal Risk Management*. We are making progress in drafting a state ownership policy. This policy will define the rationale for owning SOEs, strengthen the MOF's financial and fiscal oversight of these enterprises, ensure proper assessment of fiscal risks, and provide a roadmap for divesting from commercial enterprises that do not align with the SOE's policy goals. As part of this ongoing reform, we have issued a decree to dissolve the Armenia National Interests Fund (ANIF) and are currently working on winding it down. We are also making progress in improving the accounting and recognition of PPPs and establishing an effective overall legal limit for PPP-related liabilities. Furthermore, in line with best practice in fiscal transparency of PPPs and to support the legal limit on overall PPP exposure, we commit to annually publishing the government's total rights, obligations, and other exposures under PPP contracts, as well as the expected annual receipts and payments over the life of the contracts.

iii. *Fiscal Framework*. We have made considerable progress towards improving baseline costing, strategic prioritization, and multi-year budgeting. With support from IMF CD, we will conduct a comprehensive review of the MTEF and the annual budget processes to identify gaps and weaknesses that hinder effective implementation. This review will guide reforms to strengthen medium-term fiscal planning.

Monetary and Financial Sector Policies

8. The CBA remains committed to its price stability objective. Amid low inflationary pressures and to ensure a return of inflation to the CBA's target of 4 percent in the near-term, we have reduced the policy rate by a cumulative 325 basis points since June 2023, bringing it to 7.5 percent as of September 2024. Nonetheless, in view of the significant uncertainty to the inflation outlook, we will continue monitoring closely economic developments and inflation expectations.

9. The CBA has made significant progress in enhancing its transparency. In line with best practice: (i) monetary policy communication now discloses attributed minutes, voting records, and personal statements on the day of each policy decision; (ii) the communication of regulatory changes provides clear explanation of policy intentions to the public; and (iii) FX policy decisions and intervention outcomes are published at a daily frequency. To further improve transparency and ease of data access, the CBA will launch a new website in 2025. CBA's preliminary self-review of transparency practices against the IMF's Central Bank transparency code has informed these public disclosure improvements, and we will continue to work towards completing the assessment.

10. We are closely monitoring financial stability risks, especially those related to rising house prices and rapidly growing construction lending. Our macro-financial stress test continues to show that the banking system is resilient and can withstand a severe adverse shock thanks to its large capital and liquidity positions. The countercyclical capital buffer, set at 1.5 percent of risk-weighted assets, plays an important role in enhancing banking sector's resilience to unexpected cyclical credit losses. Moreover, the gradual phase out of the mortgage interest tax credit should also help cool the real estate market. Nonetheless, we are conducting a microprudential assessment of risky property projects and developers to inform our decisions on additional provisions, if necessary. Furthermore, we are closely monitoring all risks in the banking sector, including those related to potential external shocks.

11. We are advancing our efforts to enhance our supervisory toolkit and capacity. To better assess the risks in the banking system amidst rapid growth in banks' balance sheets and volatile interest rates, we are analyzing data received from banks for interest rate risk in the banking book (IRRBB) and will finalize an impact study using IMF CD tools. We are also developing a methodology for rating banks based on the results of the Supervisory Review and Evaluation Process (SREP). Additionally, to establish the legal basis for SREP and further enhance the supervisory framework by introducing powers to impose early intervention measures, we have developed draft amendments to the Law on CBA, the Law on Banks and Banking, and other relevant legal acts. Finally, we have made progress in preparing a draft law on bank resolution, aligned with the Financial Stability Board's Key Attributes for effective resolution. We continue discussions with the Ministry of Finance to clarify the government's role in the resolution process, its last-resort responsibility for resolution funding, and the appropriate level of information sharing. This is being done while balancing fiscal risks and preserving the CBA's independence as the supervisor and resolution authority.

Structural Reforms

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

i. *Labor market.* We have developed an employment strategy to increase employment through the creation of a competitive and employable workforce and the expansion of high productivity work opportunities and expect to adopt it by mid-December 2024. To ensure evidence-based policymaking, we will implement a pilot approach to test the efficacy of the proposed labor policy measures at a small scale before fully rolling them out. To this end, we will complete an interim report on the effectiveness and costs of the ongoing pilot program for skills development and job recruitment of refugees (**June 2025 SB**).

ii. *Business environment*. We have approved a revised corporate governance code (including a target of at least 30 percent female representation in the Board), which aims at enhancing the accountability of publicly traded, private, and state-owned companies. We are currently working on setting institutional arrangements for its enforcement, including to ensure proper supervision and transparency. We are also making progress in drafting legislation to upgrade our insolvency framework, aiming to strengthen the protection of creditor rights in line with international standards. Finally, we will take stock of all existing investment incentives provided by the Ministry of Economy by end-2024, conduct cost-benefit analysis, and discontinue ineffective incentive programs.

iii. *Trade diversification*. We have made progress towards developing a national export strategy, aimed at addressing key bottlenecks to export growth and diversification. These bottlenecks include weak logistics, fragmented institutional framework for export promotion, burdensome regulations, and non-compliance with international standards. To tackle these challenges, we have prepared an action plan and results framework with concrete policy actions. These actions will be prioritized and costed along five pillars: enhancing institutions, improving infrastructure and logistics, ensuring product quality, expanding market access and diversification, and strengthening the overall export ecosystem. The final strategy will contain a detailed implementation roadmap to ensure its successful rollout and will be adopted by March 2025.

iv. *Governance*. We are in the process of reforming the public procurement system. With support from our development partners, we have initiated a review of the legal, institutional and policy framework in line the Methodology for Assessing Procurement Systems (MAPS). Alongside, we are also amending the public procurement law to make the procurement process more transparent and competitive, and to align processes for state-funded and PPP projects.

C. Program Monitoring and Safeguards

13. 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 fifth and sixth reviews are expected to be completed on or after June 9, 2025, and November 21, 2025, respectively.

14. 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. The CBA has taken steps, with support from 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 also continues to work towards feasible steps to address recommendations related to development lending to banks and subsidiaries of the central bank.

Table 1. Armenia: Quantitative Performance Criteria 2022–23 1/

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

	2022			2023											
	Dec 2/			Mar. 3/			Jun. 2/			Sep. 3/		Dec. 2/			
	Target	Act.	Status	Indic. Target	Adjusted Target	Act.	Target	Act.	Status	Indic. Target	Act.	Target	Adj. Target	Act.	Status
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
Program fiscal balance (flow, floor) 4/5/ 9/	-384	-321	met	-124		50	-211	70	met	-314	-87	-465	-643	-537	met
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
External public debt arrears (stock, ceiling, continuous criterion)	0	0	met	0		0	0	0	met	0	0	0		0	met
MPCC 6/															
Inflation (upper-outer band, inflation consultation, percent)	12.5			11.5			8.0			7.5		5.0			
Inflation (upper-inner band, percent)	11.5			10.5			7.0			6.5		4.0			
Inflation (mid-point, percent)	10.0	8.3	met	9.0		5.4	5.5	-0.5	not met	5.0	0.1	2.5		-0.6	not met
inflation (lower-inner band, percent)	8.5			7.5			4.0			3.5		1.0			
Inflation (lower-outer band, inflation consultation, percent)	7.5			6.5			3.0			2.5		0.0			
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
Social assistance spending of the government (flow, floor) 8/ 9/	65.0	75.9	met	20.0		21	40.1	41.7	met	60.1	64.6	80.2		85.1	met

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/ September 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 1. Armenia: Quantitative Performance Criteria 2024–25 1/ (Concluded)

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

	2024											2025			
	Mar. 3/			Jun. 2/			Sept 3/			Dec. 2/		Mar. 3/		Jun. 2/	Sept 3/
	Indic. Target	Adj. Target	Act.	Target	Act.	Status	Indic. Target	Adj. Target	Act.	Target	Proposed Revised Target	Indic. Target	Proposed Rev. Indic. Target	Proposed Target	Proposed Indic. Target
Performance Criteria															
Net official international reserves (stock, floor, in millions of U.S. dollars) 4/	2,021	1,998	1,705	1,400	1,805	met	1632	1632	2055	1801	1801	1,700	1,700	1,600	1,650
Program fiscal balance (flow, floor) 4/5/ 9/	-121	-120	13	-198	23	met	-336	-336	-51	-519	-519	-111	-129	-288	-382
Budget domestic lending (cumulative flow, ceiling) 4/9/	10	10	3.6	10	3.8	met	10	10	3.8	10	10.5	10.0	26.1	26.1	26.1
External public debt arrears (stock, ceiling, continuous criterion)	0	0	0	0	0	met	0	0	0	0	0	0	0	0	0
MPCC 6/															
Inflation (upper-outer band, inflation consultation, percent)	6.5	6.5		5.8			6.5	6.5		5.8	3.5	6.1	5.2	6.0	6.2
Inflation (upper-inner band, percent)	5.5	5.5		4.8			5.5	5.5		4.8	2.5	5.1	4.2	5.0	5.2
Inflation (mid-point, percent)	4.0	4.0	-1.2	3.3	0.8	met	4.0	4.0	0.6	3.3	1.0	3.6	2.7	3.5	3.7
inflation (lower-inner band, percent)	2.5	2.5		1.8			2.5	2.5		1.8	-0.5	2.1	1.2	2.0	2.2
Inflation (lower-outer band, inflation consultation, percent)	1.5	1.5		0.8			1.5	1.5		0.8	-1.5	1.1	0.2	1.0	1.2
Indicative Targets															
New government guaranteed external debt (stock, ceiling, in millions of USD) 7/	100	100	0	100	0	met	100	100	0	100	100	100	100	100	100
Social assistance spending of the government (flow, floor) 8/ 9/	22.0	22.0	23.6	44.0	48.0	met	69.0	69.0	72.4	94.0	94.0	24.0	23.0	48.0	73.0

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/ September 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	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	Not met/ Implemented with delay	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	Not met/Implemented with delay	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.
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 (Continued)

June 2025		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		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				
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	Not met/ Proposed to be rescheduled	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.
September 2025		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				
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/implemented with delay	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.

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

June 2024	Not met/ Expected to be implemented by mid-December	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.
September 2024	Not met/ Proposed to be rescheduled	Support export-oriented growth	MOE	Complete and approve an export strategy that identifies and streamlines bottlenecks to export expansion.
October 2025		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.

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

Deadline	Status	Macro Criticality	Responsible Agency	Measure
Fiscal Policy and Fiscal Structural Reforms				
Prior Action		Ensure macro-fiscal stability	MOF	Adopt a 2025 budget with an overall deficit of 5.5 percent of GDP.
May 2025	New proposed structural benchmark		MOF	Adopt a 2026–28 Medium-Term Expenditure/Fiscal Framework (MTEF/MTFF) targeting an overall fiscal deficit of 4.5 percent of GDP in 2026 —including an explanation of key policies/measures required to achieve it— followed by a further decrease in the overall fiscal deficit in 2027–28.
July 2025	New proposed structural benchmark		MOF	Conduct a study to identify a menu of 1.0 percent of GDP rationalization measures in primary current expenditures.
Continuous	New proposed structural benchmark	Prevent revenue erosion and ensure effectiveness of investment incentives	MOF/MOE	Provide a justification, a comprehensive cost assessment, and a set of measures, as necessary, to prevent potential revenue loss from any new planned tax incentives.
Monetary Policy and Financial Sector Reforms				
March 2025	Rescheduled from 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.
Structural Reforms				
March 2025	Rescheduled from September 2024	Support export-oriented growth	MOE	Complete and approve an export strategy that identifies and streamlines bottlenecks to export expansion.
June 2025	New proposed structural benchmark	Ensure effectiveness of labor market policies	MLSA	Complete an interim report on the effectiveness and costs of the ongoing pilot program for skills development and job recruitment of refugees.

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 November 21, 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 2.

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). Margin accounts in FX are also included. 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 2.

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 December 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 December 2024 test date.

Inflation Consultation Bands

	Dec-24	Jun-25
Upper outer band	3.5	6.0
Upper inner band	2.5	5.0
Center point	**1.0**	**3.5**
Lower Inner band	-0.5	-2.0
Lower outer band	-1.5	-1.0

Source: IMF Staff.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. **Ceiling on government guaranteed external debt.** A cumulative ceiling (IT) of $100 million for the program period applies to new government guarantees of the total of concessional and non-concessional external financing, excluding the Eurobond and any similar refinancing instruments. The issuance of debt guarantees will be measured at the exchange rates listed in Table 2. 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 IFI-supported project financing loans and grants (including for on-lending) disbursed through the CBA, compared to program amounts as indicated in Table 3. 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 3), subject to a cap of $100 million per year in either direction. The floor on the program fiscal balance on a cash basis will also be adjusted downward (upward) by the cumulative total amount of the IFI-supported project financing loans received in excess (to account for a shortfall) of the program amounts (Table 3), subject to a cap of $100 million in either direction. 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.

CONTINUOUS STRUCTURAL BENCHMARK

17. During the period of the Stand-by Arrangement, new tax incentives will be introduced only in exceptional and rare cases after providing the following: (i) an assessment of the net revenue implications of the tax incentives; (ii) a written justification that the use of tax incentives aims at addressing a market failure; (iii) a sunset clause; and (iv) a set of equivalent compensatory tax policy measures if necessary to prevent any estimated loss of revenue. To ensure revenue neutrality, verifiable assessments of the revenue implications of both the tax incentives and the compensatory measures will be provided to IMF staff and will include information as described in Table 1. Upon agreement on the revenue implication assessments between staff and the Ministry of Finance, the tax incentives and the compensatory policy measures will be submitted for simultaneous parliamentary approval.

DATA REPORTING

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

Table 1. Armenia: Data Reporting Requirements

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

Table 1. Armenia: Data Reporting Requirements (Continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	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 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.

Table 1. Armenia: Data Reporting Requirements (Continued)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	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 long-term debt should include disaggregation by instrument, purpose, and lender.	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)

Table 1. Armenia: Data Reporting Requirements (Continued)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
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 according to both economic and functional classifications, consistent with the GFSM2001 methodology	Monthly	Within one month following the end of each month.

Table 1. Armenia: Data Reporting Requirements (Continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	Tax Incentives	For new tax incentives, the type of tax affected (CIT, PIT, VAT etc.); detailed description of tax incentives, including its role in addressing market failures; expected economic, social, and environmental impact from proposed tax incentives; validity term of tax incentives; and assessment of the revenue forgone (short- and medium-term). For compensatory tax measures, the type of tax affected (CIT, PIT, VAT etc.); detailed description of the new tax policy measures and assessment of the revenue gain (short- and medium- term).		
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

Table 1. Armenia: Data Reporting Requirements (Concluded)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	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 2. Armenia: (Program) Exchange Rates of the CBA

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

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

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

1/ USD cross rates.

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

Table 3. Armenia: External Disbursements through the CBA in 2024–25 1/

(In millions of U.S. dollars)

	Dec-24 Prog.	Mar-25 Prog.	Jun-25 Prog.	Sep-25 Prog.
Budget support grants	16	41	41	41
Budget support loans	325	825	825	825
Project support grants	16	21	26	36
Project financing loans	86	98	134	158
o/w multilateral	86	98	134	158
o/w bilateral	0	0	0	0
CBA project loans	20	30	50	70
EEU transfers	0	0	0	0
Privatization proceeds	0	0	0	0
Amortization	-80	-459	-575	-646

1/ Cumulative during the program review

INTERNATIONAL MONETARY FUND

REPUBLIC OF ARMENIA

FOURTH REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERION AND MONETARY POLICY CONSULTATION CLAUSE—SUPPLEMENTARY INFORMATION

December 11, 2024

Prepared by Middle East and Central Asia Department

This statement provides information that has become available since the staff report was issued on November 26, 2024. This information does not alter the thrust of the staff appraisal.

1. **The prior action on the 2025 budget has been implemented.** On December 4, 2024, Armenia's National Assembly approved the 2025 budget with an overall fiscal deficit of 5.5 percent of GDP. The budget is in line with the agreement under the Memorandum of Economic and Financial Policies (MEFP).

2. **The adopted 2025 budget law also sets a lower inflation target.** It stipulates that the Central Bank of Armenia (CBA), when making monetary policy decisions in 2025, should be guided by a year-over-year inflation target of 3 percent, from 4 percent previously, with a tolerance band of ±1.0 percentage point, as recommended by the CBA.[1] The CBA issued an official statement communicating key considerations that led to the adoption of the new inflation target. Separately, with inflation recording 1.4 percent year-on-year in November, and expected to remain low in the near term, the CBA lowered its main policy rate on December 10 by 25 basis points to 7.0 percent.

3. **Recently released data point to a normalizing economic activity and prudent fiscal stance.** Real GDP increased by 5.2 percent (year-on-year) in 2024Q3, reflecting weak net exports. Preliminary data indicates a fiscal deficit of 2.4 percent of GDP during January-November. These developments are broadly in line with staff's forecast.

[1] Article 16, Part 5 of the Republic of Armenia Law on the Budget System requires the annual state budget law to set the inflation target range for the CBA, that is, a target inflation rate and permissible deviations from this rate.

Statement by Vladyslav Rashkovan, Alternate Executive Director, and Darjan Milutinovic, Advisor for the Republic of Armenia
December 16, 2024

On behalf of the Armenian authorities, we would like to express our sincere gratitude for the IMF's continuous support to Armenia and for the diligent work and constructive approach of Mrs. Petrova, her team, and the Resident Representative Office headed by Mr. Rawat in preparing this fourth review under the Stand-By Arrangement (SBA). The SBA remains an important insurance against external shocks and supports the authorities' structural reform agenda. The authorities also highly appreciate the IMF's capacity development (CD), which supports SBA implementation and continuously improves policy capacities.

Weathering multiple shocks in the last few years, the Armenian economy has remained resilient and continues to grow robustly, bolstered by strong policy efforts. The authorities' unwavering commitment to prudent policies has been reflected in consistently strong fiscal and external positions, despite several policy challenges, including the integration of 100,000 refugees from Nagorno-Karabakh. The Armenian authorities continue to demonstrate strong program ownership by meeting all quantitative performance criteria (QPCs) and indicative targets (ITs) by a comfortable margin as well as making considerable progress on structural benchmarks (SBs). Only the end-June headline inflation rate breached the lower-inner band of the Monetary Policy Consultation Clause (MPCC) due to external factors. Furthermore, the authorities highly prioritize their structural reform agenda aimed at promoting high-quality growth driven by exports, investments, and human capital accumulation. Therefore, some suggested revisions of SBs' timelines would allow the authorities to maximize the ongoing reforms' impact. ***Against this background, the authorities request the completion of the fourth review under the SBA and commit to maintaining a close policy dialogue with the Fund, while treating the arrangement as precautionary.***

Macroeconomic Developments & Outlook

Staff assesses continued strong economic growth, which is expected to gradually converge to its long-term rate. With expected growth of around 6 percent in 2024, the Armenian economy has rapidly expanded in the 2021-2024 period, cumulatively increasing by over 30 percent, driven by strong domestic consumption and private investment, supported by buoyant services, construction, and trade. Although inflation remains subdued well below the Central Bank of Armenia's (CBA) 4-percent target, it picked up to 1.4 percent as of November 2024. Despite the widening current account deficit, capital inflows have continued to support the dram while gross international reserves grew to above adequate levels.

The authorities expect a more positive medium-term outlook, as they assess slightly higher potential growth compared to staff. While agreeing that growth will decelerate to its potential rate from 2026 onwards, the authorities anticipate a higher potential growth of 5.1 percent, compared to staff's 4.5 percent, due to positive effects on potential growth from their comprehensive reform agenda and substantial investment program. On inflation, the authorities share staff's expectation of a return to the 4-percent target.

Fiscal Policy

The authorities remained strongly committed to fiscal prudence, despite significantly increased spending needs for humanitarian and development support to refugees from Nagorno-Karabakh. The fiscal deficit is expected to widen temporarily to accommodate the high spending needs for the 100,000 refugees from Nagorno-Karabakh, including social assistance and housing, pensions, education, health, and regional development. Moreover, additional necessary national security spending and public investment to cover infrastructure gaps put further pressure on public finances. Nevertheless, due to careful prioritization of expenditures and prudent fiscal management, the authorities intend to achieve the program's fiscal deficit target, with the fiscal deficit reaching 0.8 percent of GDP through September 2024. Public debt is expected to remain below 50 percent of GDP, and the authorities share staff's assessment that debt is 'sustainable with high probability'.

The authorities are determined to resume fiscal consolidation from 2026. While other spending remains constrained, high security and social spending pressures for the refugees' integration necessitate adjusting the deficit target to 5.5 percent of GDP in 2025. From 2026, following their longstanding track record of prudent fiscal policies, the authorities adopted a new Medium-Term Fiscal Framework 2025-2027, where they commit to bringing the deficit to 3 percent of GDP by 2027 through a comprehensive medium-term fiscal consolidation plan. On the revenue side, notable progress has been made in implementing tax policies that will yield additional revenue of at least 0.75 percent of GDP by 2026. This includes already implemented increases in turnover tax rates, environmental taxes on imported vehicles, and other excises expected to yield 0.3 percent of GDP. On the expenditure side, the authorities have committed to identifying additional 1 percent of GDP rationalization measures in July 2025, supported by IMF CD.

Continuous progress on fiscal structural reforms will also contribute to fiscal buffers. The ongoing structural reforms to increase tax administration capacities would improve tax compliance and are expected to yield significant new revenues in the medium term. Furthermore, the authorities are making progress in strengthening the Public Investment Management (PIM) framework through legislative and institutional changes, supported by IMF CD, which would improve the effectiveness of public investment. Additionally, they are proactively managing fiscal risks coming from SOEs through drafting a state ownership policy, the dissolution of the Armenia National Interests Fund (ANIF) and improving their fiscal framework with support from IMF CD.

Monetary & Financial Sector Policies

Following the successful anchoring of inflation expectations, the CBA remains committed to its price stability objective and continues with the easing cycle amid a low-inflation environment. After achieving a significant deceleration in inflationary pressures last year and to ensure a return of inflation to the CBA's target of 4 percent in the short term, the CBA continues to reduce the policy rate, with a cumulative reduction of 375 basis points since June 2023, bringing it to 7.0 percent as of December 2024. Amid significant large uncertainty, the CBA remains committed to closely monitor economic developments and inflation expectations, ensuring proactive and responsive measures to maintain price stability.

The CBA continues to make substantial progress in improving its monetary policy framework and transparency. The risk-based approach to monetary policy decision-making has been successfully implemented this year and has already proved effective. Furthermore, the CBA continues to enhance its macro modeling capacity and has significantly improved its transparency on monetary policy communication, regulatory changes, and FX policy decisions and interventions in line with international best practices and the IMF's Central Bank Transparency Code. Recently, the CBA announced lowering the inflation target to 3 percent over the next three years, given the maturity of its monetary policy framework.

The financial sector has remained resilient, supported by high capital and liquidity buffers. Banks are highly capitalized, liquid, and profitable, with very low nonperforming loans at 1.2 percent of gross loans. Hence, the banking sector remains resilient to severe adverse shocks, as shown by the macro-financial stress test. Moreover, the authorities share staff's assessment of the real estate market as a pocket of vulnerability and have taken measures to mitigate the buildup of risks, notably by further increasing the countercyclical capital buffer to 1.75 percent, enhancing the CBA's stress-testing capacity, and conducting microprudential assessments of risky property projects and developers. Relatedly, in addition to gradually phasing out the mortgage interest tax credit, the government has introduced legislation to limit the use of funds in escrow accounts by property developers and prohibit FX mortgages for residents with income in national currency.

To further bolster the sector's medium-term resilience, the CBA is making steadfast progress on strengthening its supervisory toolkit and capacity. The CBA is improving the interest rate risk assessment using IMF CD tools and is developing a methodology for rating banks. To implement the mentioned methodology and to give supervisors the power to impose early intervention, the CBA has prepared necessary legislative changes. Moreover, the authorities have made substantial progress on aligning the bank resolution framework with the Financial Stability Board's Key Attributes for effective resolution and prepared the draft law.

Structural Policies

The government's key policy priority is to foster a private-sector-led, export-oriented, investment-driven, and knowledge-based growth model aimed at reducing poverty and enhancing social protection.

The authorities are finalizing two key pillars to achieve that goal: a new employment strategy and a new export strategy. A comprehensive employment strategy will be adopted around mid-December that seeks to improve employability and job opportunities for youth, women, and vulnerable groups, including measures for skills development and improving connectivity. The proposed labor policy measures will be tested on a smaller scale to assess their effectiveness before their full rollout. Furthermore, the national export strategy development has notably advanced, aimed at diversification and expansion of exports and increasing their value added. The final strategy, planned for adoption in March 2025, would consist of concrete policy actions aimed at improving export logistics, promotion, compliance with international standards, while cutting burdensome regulations.

Several initiatives to improve the business environment and strengthen good governance are on a firm track. The authorities have revised corporate governance to enhance the accountability and transparency of companies and are making institutional arrangements for its enforcement. The improvement of the insolvency framework, aimed at strengthening creditor rights in line with international standards, is also on track. Finally, the authorities are reforming the public procurement system to improve public investment implementation and infrastructure development.

Program Performance & Modalities

Continuing their strong track record, the authorities have once again successfully met all the QPCs and ITs for the end of June, while also making considerable progress on SBs. Only the end-June headline inflation rate breached the lower-inner band of the MPPC on account of external factors. Despite a few minor delays, the authorities are fully dedicated to the program's objectives and parameters, which are well-aligned with their reform agenda, ensuring a high degree of ownership.

A few adjustments related to the timing of conditionality are warranted to maximize the impact of the planned reforms. Two structural benchmarks related to the bank resolution framework and the export strategy are proposed to be rescheduled. Regarding the bank resolution framework, the draft law has already been prepared, but further consultations between the CBA and the Ministry of Finance are needed to set up the information-sharing modalities and to define the government's role in decision-making and resolution funding. Furthermore, the export strategy is also in its final stage, but additional time would allow prioritizing the most impactful policy measures.

New proposed structural benchmarks positively complement the authorities' structural reform agenda. They aim to support fiscal prudence and will aid in assessing the effectiveness of structural policy measures from the export strategy and the employment strategy. In addition, given the substantial inflation reduction, the authorities share staff's proposal to reset the MPCC.

The program's financial parameters remain sound. The authorities have utilized large financial inflows for the accumulation of foreign exchange buffers, keeping international reserves comfortably above 100 percent of the ARA metric for the projected period. Additionally, the program is fully financed for the next 12 months, with good prospects for adequate financing for the remainder of the program. Lastly, Armenia's repayment capacity is strong, thanks to the declining trend in both public and external debt and the authorities' long-standing record of prudent macroeconomic management and successful reform implementation.