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## **Armenia: Recent Economic Developments and Selected Issues**

This Recent Economic Developments and Selected Issues report on Armenia was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Armenia or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF ARMENIA

**Recent Economic Developments and Selected Issues**

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Table 1. Armenia: Selected Economic Indicators

	1996	1997	1998	1998 First Half	1999 First Half
GDP (billions of dram)	660	799	952	466	495
Real GDP growth (percent change) 1/	5.8	3.1	7.2	6.7	4.9
GDP in millions of US dollars	1,597	1,628	1,885	930	918
<i>Inflation (in percent)</i>					
Period average	18.7	14.0	8.7	18.8	-2.4
End-period 2/	5.8	21.9	-1.3	-1.3	4.2
<i>Exchange rates (drams/US dollar)</i>					
Period average	413	491	505	498	539
End period	435	495	522	522	532
<i>Fiscal Sector (in percent of GDP)</i>					
<i>Consolidated budget</i>					
Revenue and Grants	17.7	19.8	20.8	18.7	18.5
Of which: Tax Revenue	12.9	16.4	17.1	15.6	15.5
Expenditure	26.3	25.7	25.0	19.5	21.4
Of which: Current Expenditure	19.6	21.5	19.2	16.6	15.7
Cash Deficit 3/	-9.3	-5.8	-4.7	-2.4	-3.3
<i>Monetary Sector</i>					
Net Domestic Assets of the CBA 4/ 5/	15.6	-45.0	4.2	5.1	3.2
Reserve Money (end of period growth rate, in percent) 5/	40.5	22.5	6.5	-7.2	-18.9
Broad Money (end of period growth rate, in percent) 5/	35.1	29.2	36.0	9.2	-3.8
Broad Money Velocity	13.8	12.8	10.4	12.0	10.8
Dram Broad Money (end of period growth rate, in percent) 5/	34.1	8.7	23.3	0.8	-13.7
Dram Broad Money Velocity 6/	17.4	19.3	17.3	19.5	20.1
<i>External Sector</i>					
<i>Current account balance 7/</i>					
millions of US dollars	-408	-456	-515	-197	-180
in percent of GDP	-25.6	-28.0	-27.3	-21.2	-19.6
<i>Total external debt</i>					
millions of US dollars	613	806	828	757	825
in percent of GDP	38.5	49.5	43.9	81.4	44.9
<i>External debt service (In percent of exports of G&amp;NFS)</i>					
On amounts due	20.3	14.6	13.4	13.2	13.6
On amounts paid	22.7	15.0	46.1	11.9	13.6
<i>Gross official international reserves (millions of US \$)</i>					
In months of imports of goods & non-factor services	171	243	298	252	265
	2.3	3.1	3.6	3.3	3.8

Sources: Armenian authorities and Fund staff estimates.

1/ With respect to the same period in the previous year.

2/ Inflation during the last 12 months.

3/ Deficit as measured by financing.

4/ Change in percent of reserve money at the beginning of the period.

5/ Half year figures are changes during the six month period.

6/ In final quarter of the period, using GDP of the corresponding quarter, seasonally adjusted.

7/ Excludes official transfers.

## I. AN OVERVIEW OF RECENT ECONOMIC DEVELOPMENTS

### A. Introduction

1. Economic developments in Armenia in 1998 and the first half of 1999 can best be described by looking separately at two periods: January through mid-August 1998, and the period after that, following the onset of the Russian crisis. Prior to August 1998, real GDP growth was strong, inflation had declined to moderate levels, the current account deficit was declining, and the exchange rate was stable. The Russian crisis, however, hit Armenia hard. Exports, workers' remittances and transfers fell sharply. This led to declining demand for output in industry, transportation, and services. In addition, Armenia suffered a decline in portfolio and direct foreign investment. The impact of the Russian crisis was compounded by a drought in late 1998, and by rising political uncertainty in the run up to the May 1999 parliamentary elections. Only a strong performance in the construction sector, driven largely by government investment projects, supported continued strong real GDP growth in late 1998 and the first few months of 1999.

2. The government responded to the crisis with policies designed to try to maintain the pre-crisis level of aggregate demand, while avoiding large fluctuations in the exchange and interest rates. Monetary policy was relaxed at the end of 1998, and official intervention in the foreign exchange and securities markets intensified. As the crisis deepened in the first half of 1999, there were shortfalls in both tax collections and external financing. In addition, domestic financing became more expensive, as interest rates on treasury bills continued to increase. This led to the emergence of expenditure arrears, including for wages, pensions and family allowances. By mid-1999, it had become clear that this approach was unsustainable, and corrective policies were needed.

### B. Output Growth, Prices, Wages and Employment

3. Following the cease-fire in the conflict over Nagorno-Karabakh, real GDP began to recover in 1994, growing on average about 6 percent per year in 1994–96 (Table 2). Initially growth was driven by trade, but by 1996 it had become more balanced, with strong growth in construction, transport and communications, and services, as well as wholesale and retail trade. Only industry and agriculture continued to grow more slowly than overall GDP. In 1997, due to declining agricultural production caused by adverse weather conditions, GDP growth slowed to just over 3 percent.

4. In 1998 **growth** accelerated, to 7.2 percent, although Armenia was adversely affected by two major exogenous shocks in the latter half of the year. The first was the Russian crisis; the impact on some sectors was immediately evident, particularly industry. After moderate growth (about 3½ percent on average, Table 3) in the first half of 1998, value added in industry fell almost 4 percent in the third quarter and more than 10 percent in the fourth quarter. The second shock was a drought, which reduced the winter wheat harvest in early 1999. As a result of these shocks, real GDP in the first half of 1999 only grew by 4.9 percent

compared to a year earlier (Figure 1), with half of that growth due to very strong performance in construction.

5. The **sectoral composition of output** changed significantly. From 1994 through 1998, agriculture and industry declined sharply as a share of GDP, while trade and services roughly doubled their share (Table 4 and Figure 2). Nonetheless, agriculture continues to comprise the largest share of GDP, while services exceeded industry for the first time in 1998. The first half of 1999 saw industry and agriculture decline further relative to GDP, while trade and services grew modestly and construction grew sharply (Tables 5 and 6).

6. Armenia has experienced a dramatic decline in inflation since 1994. Period average **consumer price inflation** fell steadily from over 5000 percent in 1994 to near 200 percent in 1995 and to less than 9 percent in 1998 (Table 7 and Figure 3). Reflecting seasonal pressures (particularly rising food prices), some adjustments in regulated prices (Tables 8 and 9), and the impact of exchange rate depreciation, between October 1998 and January 1999. Consumer prices rose at an average monthly rate of more than 2 percent, before declining 3 percent from February through July 1999, in part due to the impact of an appreciation of the exchange rate.

7. After a sharp drop in 1994, **real dram wages** in state owned corporations increased substantially in the last 5 years,<sup>1</sup> including by 24 percent in 1998 (Table 10). The first half of 1999 witnessed further rapid growth, with average real wages up almost 30 percent from a year earlier. While wages vary dramatically across sectors, the sectoral spread of wages has declined over time (Table 11). For example, in 1994 wages in finance were 5 times the average for the state sector; by early 1999, while finance continued to offer the highest wages of any sector, they were only 3 times the average wage.

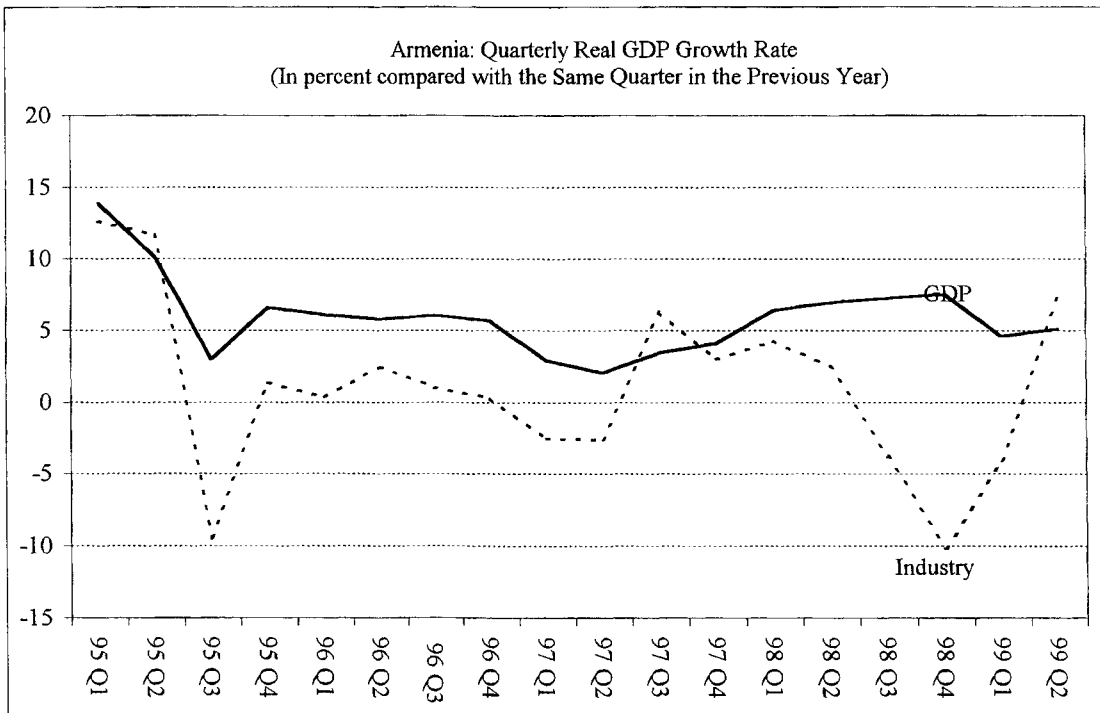
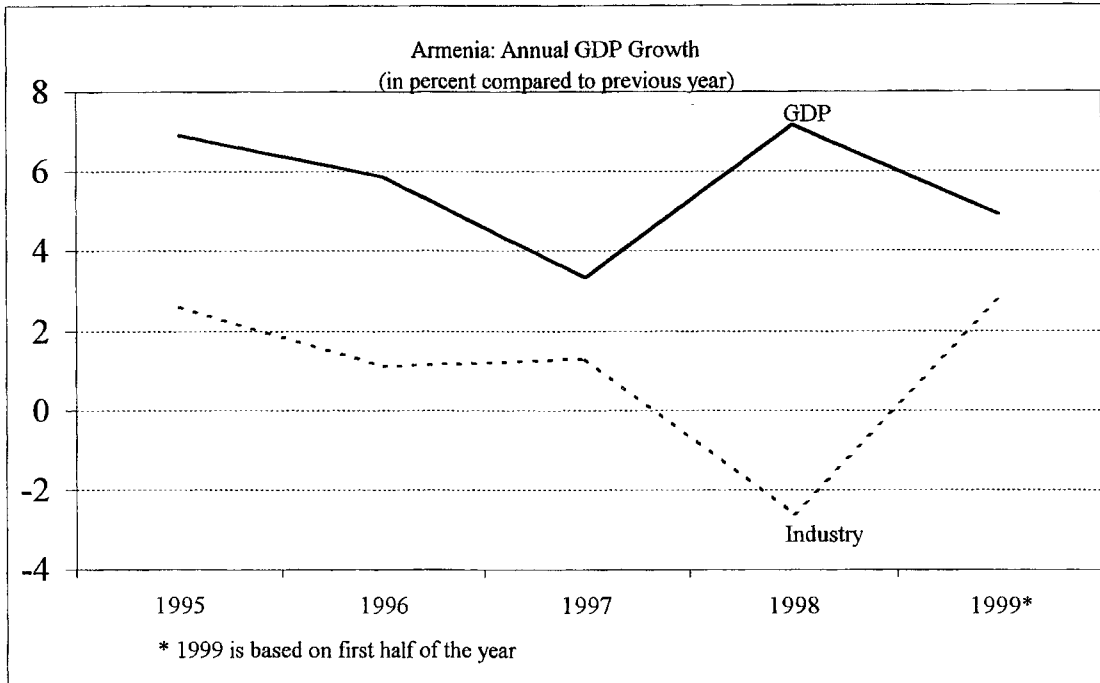
8. **Employment** levels in Armenia have gradually declined, with total employment in 1998 almost 10 percent below 1994 (Table 12). The unemployment rate grew from 6.6 percent in 1994 to 9.3 percent in 1998.<sup>2</sup> Employment levels in the state sector declined by 45 percent between 1994 and 1998, while private sector employment grew more than 30 percent (Tables 13-14). As a result, the share of the private sector in total employment had increased from 47 percent in 1994 to 67 percent in 1998.

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<sup>1</sup> Time series data on wages in private sector companies are not available.

<sup>2</sup> The official unemployment figures do not take into account whether or not people are actively seeking a job, and there are indications that hidden unemployment may be quite high. For example, the Health and Education Survey conducted in November 1996 estimated that unemployment was 25 percent, compared to the official figure of 9.3 percent.

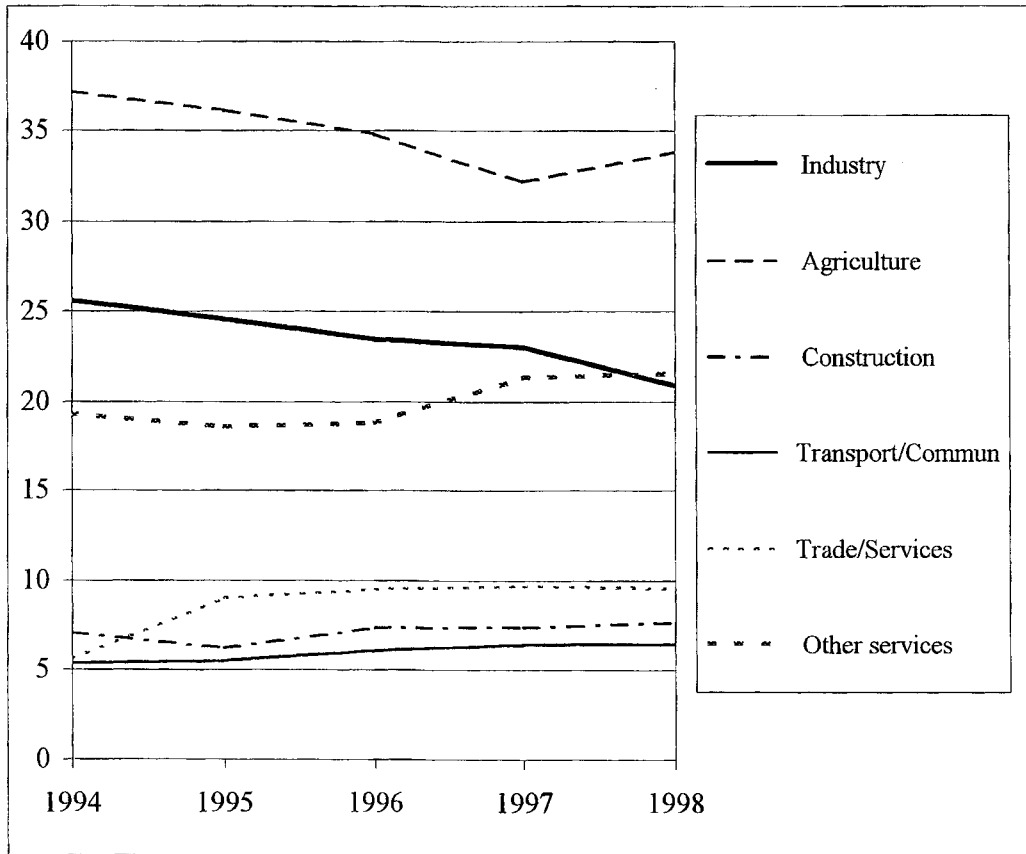
**Figure 1: Real GDP Growth Indicators**



Sources: Armenian authorities and Fund Staff estimates

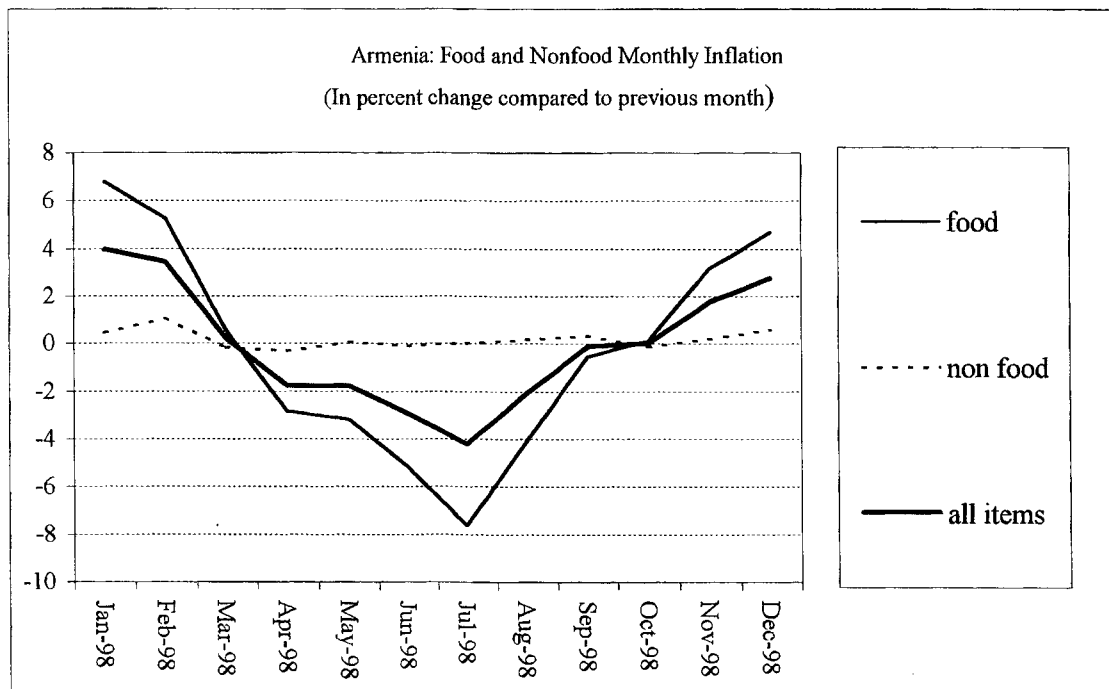
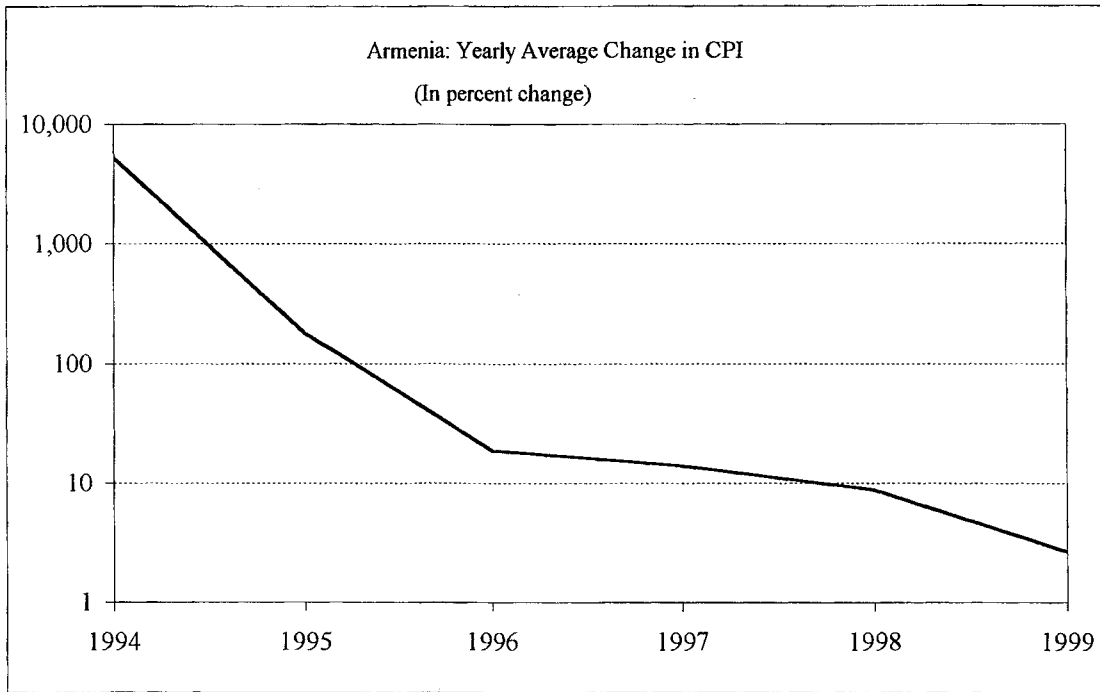


**Figure 2: GDP Composition (in percent)**



Sources: Armenian authorities and Fund Staff estimates

**Figure 3: Inflation Indicators**



Sources: Armenian authorities and Fund Staff estimates

## C. Public Finances and Social Safety Net

### Overview and Background

9. The fiscal sector in Armenia consists of the republican government, local governments, and the State Fund for Social Insurance (SFSI). Local governments and the SFSI are required by law to run balanced cash budgets, so the fiscal deficit (on a cash basis) is the same for the republican budget,<sup>3</sup> the state (republican plus local) budget and the consolidated (state plus SFSI) budget.

10. The **fiscal deficit** declined steadily from 11 percent in 1995 to about 6 percent of GDP in 1997 (Figure 4 and Tables 15-18). Most of this adjustment has come from expenditures. Increases in consolidated government tax revenues equivalent to about 3½ percent of GDP—reflecting measures which increased tax rates and broadened tax bases, improvements in tax administration, and netting out operations<sup>4</sup>—were offset by declining nontax revenues and grants. As a result, total revenues and grants in 1997 were roughly unchanged from their level in 1995, at just under 20 percent of GDP.<sup>5</sup> On the expenditure side, current expenditures were broadly unchanged, while capital expenditures declined by more than 3 percent of GDP. Throughout this period, the deficit has been financed primarily by external sources, with domestic financing averaging less than 1 percent of GDP. Net external financing, while more significant, declined from 10½ percent of GDP in 1995 to about 6½ percent of GDP in 1996-1997.

### Fiscal Operations in 1998 Prior to the Russian Crisis

11. The fiscal deficit continued its downward trend in the first three quarters of 1998. Tax **revenues** of the consolidated government increased by almost 2 percent of GDP relative to a year earlier, reflecting both the full year effect of measures introduced during 1997 and new measures introduced with the 1998 budget.<sup>6</sup> Nontax revenues rose, reflecting high profit transfers from the Central Bank of Armenia (CBA) and receipts from leasing state property. Grants, however, declined sharply, reflecting in part the decision of the government to

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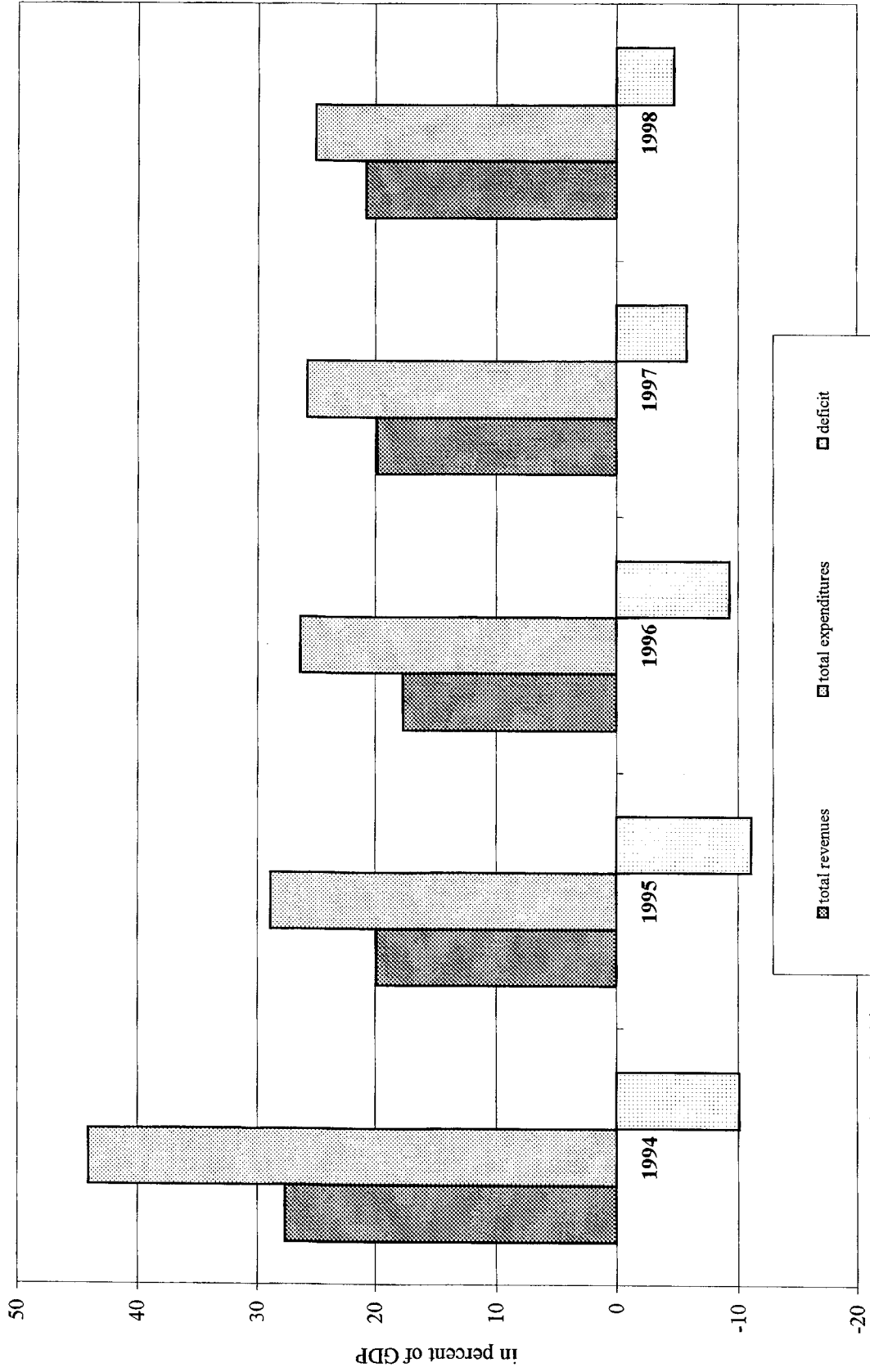
<sup>3</sup> Except for changes in deposits of local governments or the SFSI.

<sup>4</sup> These measures included new excises on alcohol, tobacco products, petrol, diesel and cars, as well as the introduction of presumptive taxes on retail shops, small kiosks, restaurants and other food services, and some transportation services. Without netting out operations, tax revenues would have been 1½ percent of GDP lower.

<sup>5</sup> Total revenue in 1995 was roughly the same as in 1994, although grants were down sharply in 1995.

<sup>6</sup> The new measures included a broadening of the presumptive tax base and the introduction of new presumptive tax rates. (See Chapter II)

Figure 4. Armenia - Fiscal Situation of the Consolidated Government



Sources: Armenian authorities

redirect some budgetary support in 1998 to the purchase of electricity and water meters in 1999. Nonetheless, total revenues and grants increased by almost 3 percent of GDP in the first three quarters of 1998, compared to a year earlier. **Expenditures** relative to GDP were down modestly. Contrary to the pattern from 1995 through 1997, the reduction in expenditures in the first three quarters of 1998 was due to declining current expenditures, as both capital expenditures and net lending increased somewhat relative to GDP.

12. External financing covered about two-thirds of the deficit in the first three quarters of 1998 (or about 2 percent of GDP), and the rest was financed primarily from privatization receipts. The budget made allowance for use of up to 1½ percent of GDP in privatization proceeds in 1998, with the balance set aside in a special privatization account with the interest capitalized as a reserve against outstanding official guarantees on domestic borrowing by public enterprises.

### **Fiscal Operations Following the Russian Crisis**

13. The **cash deficit** surged to 11 percent of GDP in the fourth quarter of 1998, reflecting declining revenues and rapidly increasing expenditures. Fourth quarter **tax revenues**, which are typically much stronger than the rest of the year, were up only modestly from the third quarter.<sup>7</sup> Thus, while in the first three quarters of 1998 tax revenues were about 2 percentage points of GDP above 1997, in the fourth quarter tax revenues were almost 2½ percent of GDP below a year earlier, with most of the disappointing performance due to rising tax arrears and low collections on VAT and excise taxes (primarily due to falling imports). Cash **expenditures**, meanwhile, increased by almost 10 percent of GDP between the third and fourth quarters. Nevertheless, for the year as a whole the cash deficit declined to around 4½ percent of GDP.

14. External **financing** covered about a third of the deficit (3¾ percent of GDP) in the last quarter of 1998. Such financing would have been about one percent of GDP higher except for an unbudgeted payment to the EU, as part of the restructuring of overdue obligations. To cover this payment, the budget law was amended to allow greater use of privatization proceeds. Banking system credits financed the rest of the deficit.

15. The **first half of 1999** saw a decline in the deficit relative to the fourth quarter of 1998. Nonetheless, the deficit remained well above the level of the first half of 1998 (3.3 percent of GDP, compared to about 2 percent in 1998). To strengthen revenue performance, the 1999 budget introduced a number of tax measures designed to increase revenues,<sup>8</sup> and a High Level Committee on tax arrears stepped up efforts to resolve the cases.

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<sup>7</sup> From 1995 through 1997, tax revenues in the fourth quarter averaged almost 7 percentage points of GDP more than in the third quarter.

<sup>8</sup> The new measures included a higher excise tax on cigarettes, new environmental fees and taxes, and fees for the replacement of automobile license plates and drivers' licenses.

of the largest tax debtors. The impact of these measures on **tax revenues** was just enough to offset the impact of the Russian crisis on revenues and, as a result, the share of taxes in GDP in the first half of 1999 was unchanged relative to the first half of 1998.

16. To avoid a repeat of the large 1998 fourth quarter deficit, **current cash expenditures** were sharply compressed. More than offsetting this, however, capital expenditures and net lending were up sharply. The resulting cash deficit was **financed** in roughly equal parts by net external financing and privatization proceeds, with banking system financing declining as the CBA tightened monetary policy (see section D below).<sup>9</sup> The sharp compression in cash payments for expenditures masked the accumulation of substantial **expenditure arrears**, including for wages, social safety net payments, health and education. Thus, on an accrual basis, the deficit was about 5.5 percent of GDP.

17. **Social safety net expenditures** rose from 4.4 percent of GDP in 1996 to 5 percent of GDP in 1998. Through 1997, the social safety net in Armenia consisted primarily of pensions (about 70 percent of total social safety net expenditures), and child and cash compensations (about 30 percent of such expenditures).<sup>10</sup> In 1998 a family benefit was adopted, replacing both the child allowances and general support via cash compensation. Further improvement in the targeting of social benefits took place in January 1999, when a means-tested family allowance system was introduced.<sup>11</sup> Under the new system, dram 1.75 billion per month has been transferred to some 230,000 families, for an average monthly support per family of about dram 7,600 or US\$14.

#### D. Monetary and Exchange Rate Developments

18. Following reserve money growth of 700 percent in 1994, monetary policy was tightened significantly, and by 1997 the rate of growth of reserve money had been reduced to 29 percent (Table 21 and Figure 5). Broad money growth paralleled the movements in reserve money (Table 22), as the money multiplier was essentially unchanged from 1995 through 1997. The management of reserve money was complicated by volatile capital inflows from abroad. The situation was particularly difficult in the second half of 1997, when Armenia experienced large inflows of official capital, as well as private capital attracted by high treasury bill yields. To prevent a sharp appreciation, the CBA bought large volumes of foreign exchange, but could not completely sterilize these flows by reducing net domestic assets. As a result, reserve money growth accelerated and inflation picked up.

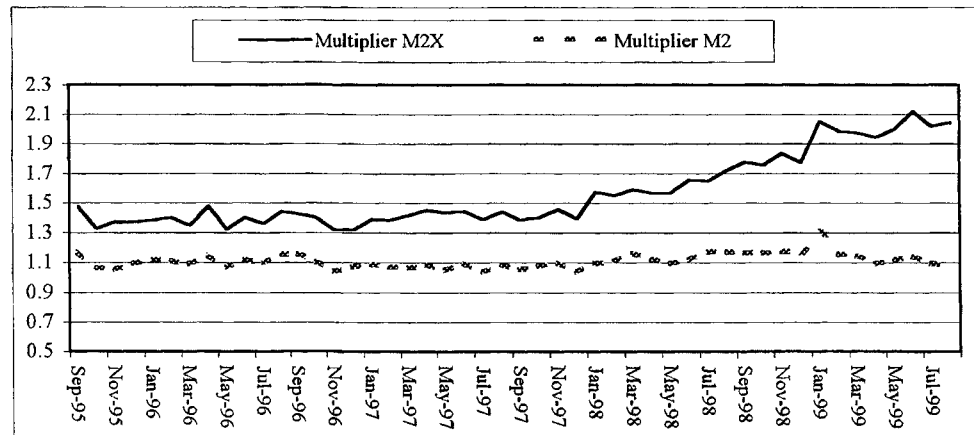
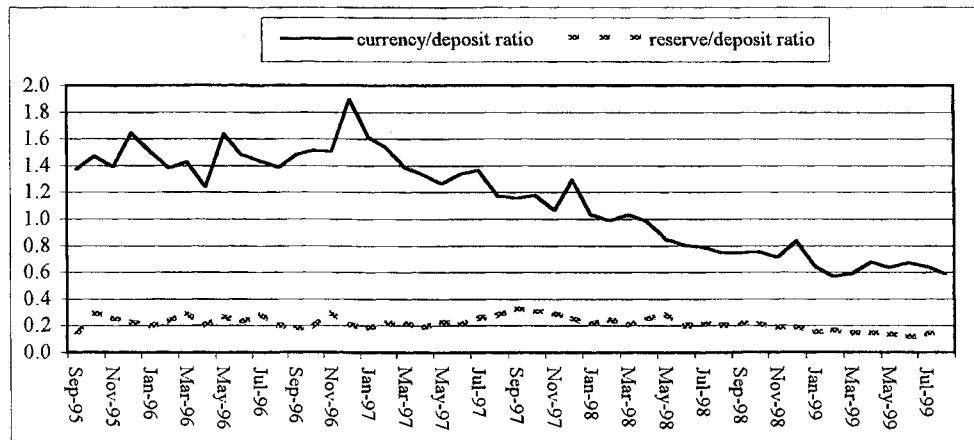
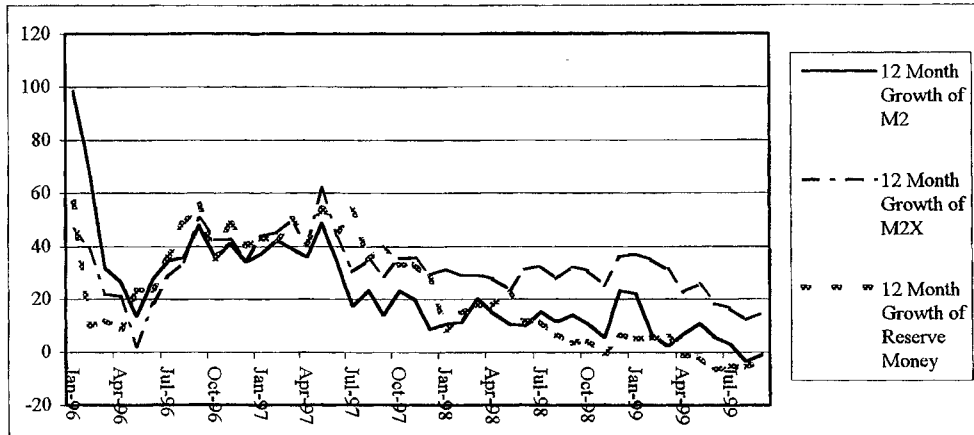
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<sup>9</sup> The 1999 budget law prohibited the extension of credits by the CBA to finance the budget, other than intra-quarter credits.

<sup>10</sup> Unemployment compensation payments were minimal, at around 0.1 percent of GDP.

<sup>11</sup> This new system was designed to cover the cost of increased electricity tariffs for low income families (see section H below).

Figure 5: Armenia: Key Monetary Trends



Sources: CBA and Fund Staff estimates

### **Developments in 1998 Prior to the Russian Crisis**

19. Between end-1997 and September 1998, reserve money was broadly unchanged, despite a modest decline in net international reserves. The CBA offset an increase in net credit to the government (NCG) by contracting net credit to banks, largely through active use of the repurchase window. There was sizable CBA intervention in the foreign exchange market only in the first quarter of 1998, in advance of the presidential election.

20. Despite the strict control of reserve money, a rising money multiplier led to a 28 percent increase in broad money during this nine month period. This increased money supply was met by a rising money demand, and as a result lending and deposit rates as well as treasury bill rates declined (Tables 23 and 24). Combined with a broadly unchanged nominal exchange rate, this growth in money demand put downward pressure on prices, with 12-month inflation at end-September 1998 of minus 2.1 percent.

### **Developments Following the Onset of the Russian Crisis**

21. The impact of the Russian crisis on financial markets was felt quickly, as it shook investor confidence in dram-denominated assets. **Interest rates** on treasury bills, which had averaged 39 percent in July, rose sharply, in part due to declining non-resident demand, reaching almost 60 percent by end-1998 (Figure 6). Dram lending rates also rose rapidly, while dollar lending rates were roughly unchanged.

22. The impact was also felt in the **exchange market**. The dram began to depreciate against the U.S. dollar in September 1998, losing over 1 percent of its value despite CBA sales of foreign exchange. In the fourth quarter, the CBA was confronted with two pressures. The first was a desire to prevent further depreciation, and the second was the need to provide bridge financing—in advance of an anticipated disbursement from the World Bank—to cover a rapidly growing fiscal deficit. In the event, the CBA extended credit to the government, and tried to sterilize the impact of this credit through the sale of foreign exchange (Figure 7)<sup>12</sup> and reverse repurchase agreements. As a result, reserve money declined from August through November. When the reverse repurchase agreements matured in December, net credit to banks surged, leading to a monthly reserve money growth of more than 12 percent. Despite large sales of foreign exchange (November sales were equivalent to 14 percent of reserve money), the CBA could not prevent further depreciation, as the exchange rate depreciated 2.8 percent in the last quarter of 1998 and by 7 percent in January 1999. At this juncture, monthly inflation had already started growing.

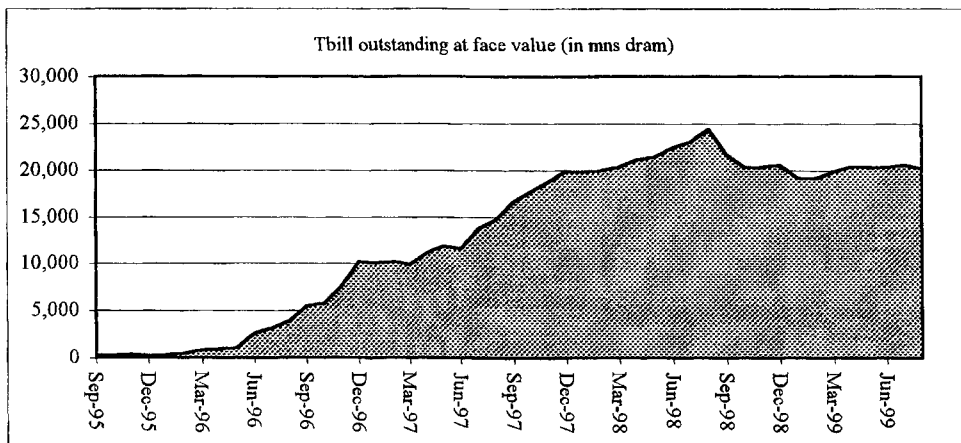
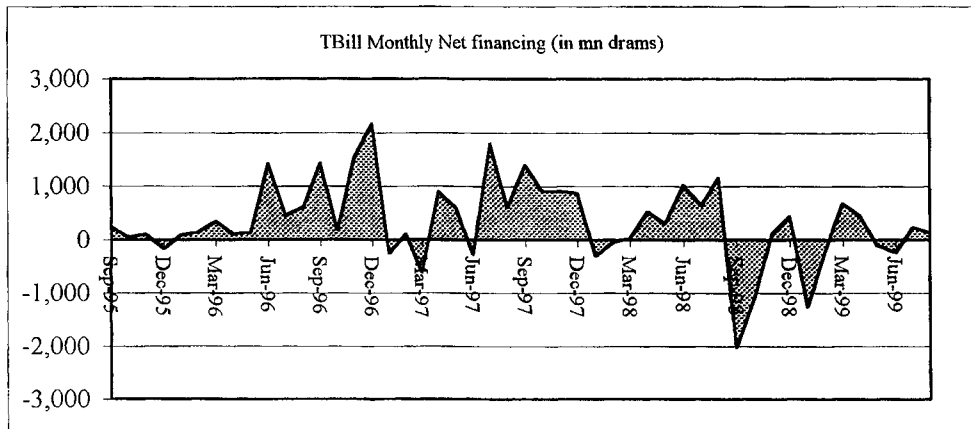
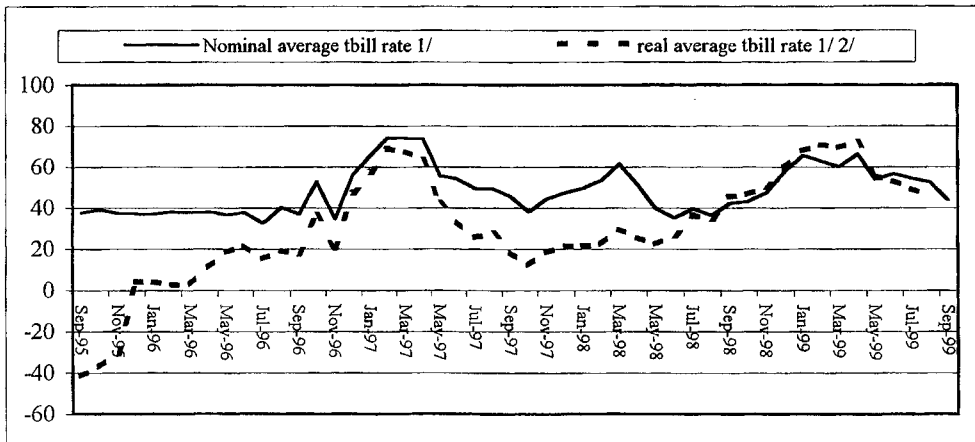
23. The first quarter of 1999 saw a continuation of the CBA's efforts to resist depreciation. Net foreign assets declined, while net domestic assets of the CBA were broadly unchanged, leading to a 15 percent decline in reserve money. The sharp contraction in

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<sup>12</sup> The surge in net foreign assets of the CBA in December, and the largely offsetting decline in CBA NCG, reflects a late December disbursement from the World Bank.



**Figure 6: Armenia: Treasury Bills Market**

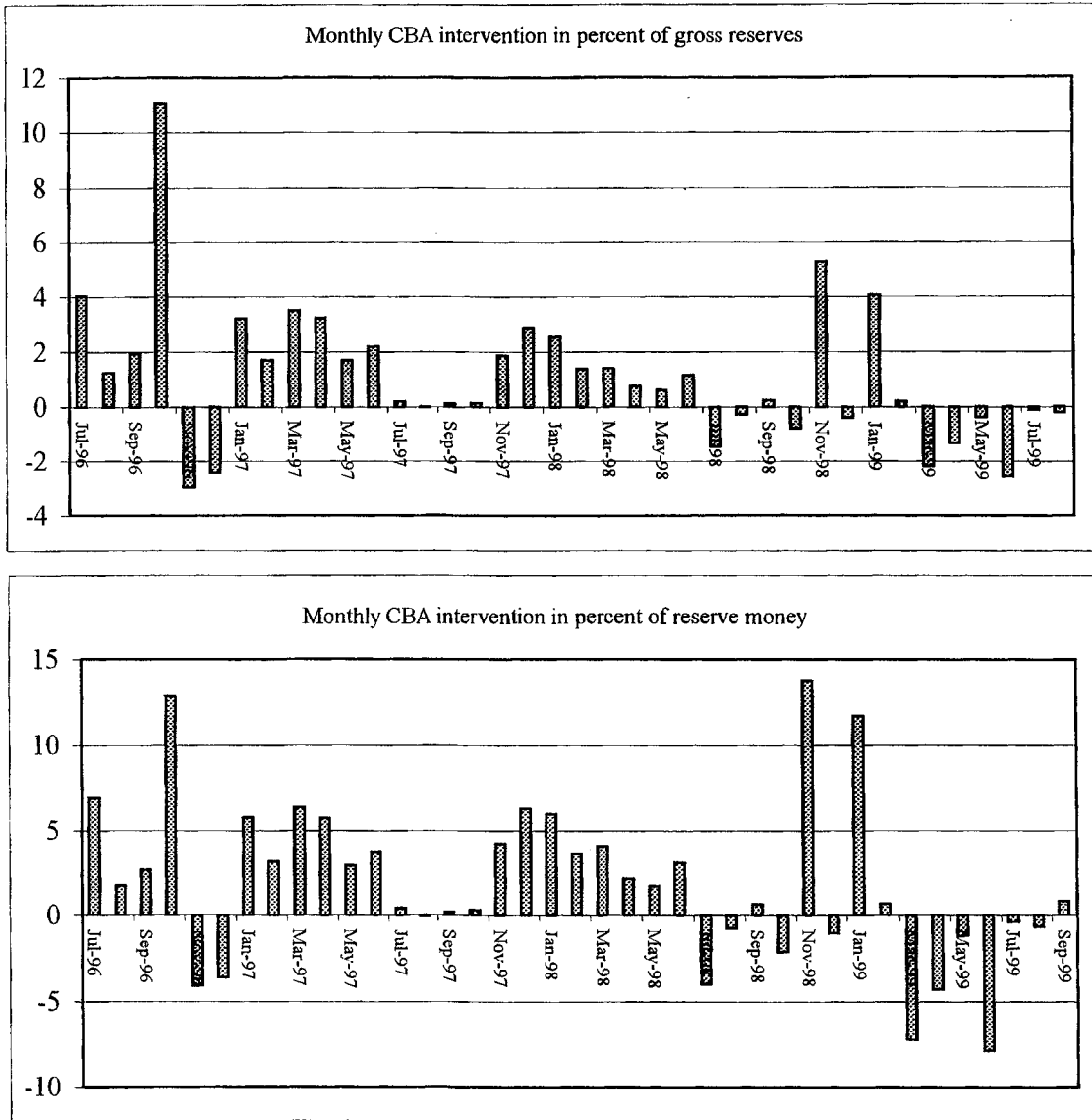


Sources: Armenian authorities and Fund Staff estimates

1/ The tbill rate is the weighted average annual rate for different maturities

2/ The real rate is defined as the nominal rate deflated by the 12 month change in the CPI

Figure 7. Monthly Central Bank Intervention in the Foreign Exchange Market 1/



Sources: CBA and Fund Staff estimates

1/ A positive number indicates net sales of foreign currency

reserve money stopped the depreciation of the exchange rate, and contributed to an increase in the average real treasury bill rate to around 70 percent by end-February.<sup>13</sup> The decline in reserve money did not translate into an equivalent decline in broad money, however, as the money multiplier continued to increase<sup>14</sup> due to banks' failure to meet their required reserves.

24. The second quarter saw the return of the dual pressures on the CBA: a perceived need to protect the exchange rate while providing direct credits to the budget in anticipation of another sizable inflow of external financing to the budget. To sterilize these credits, in April the CBA reduced its net foreign assets by the equivalent of 16 percent of end-March reserve money, and as a result reserve money remained unchanged in April and the nominal exchange rate did not move. However, when it became clear that the World Bank credit might not be received in June, the CBA began reducing NCG while rebuilding its international reserves. By end-June, NCG was below the level at end-March,<sup>15</sup> while the CBA had recovered 60 percent of the reserves lost in April. As official reserves were being accumulated, the exchange rate depreciated further in May and June.

25. As a result of these monetary policy swings, reserve money at end-June 1999 was more than 4 percent below end-March, and roughly 20 percent below end-December 1998. Despite the growing money multiplier, dram broad money at end-June was almost 14 percent below end-1998. Notwithstanding the tight monetary policy, the cumulative depreciation of the exchange rate (about 9 percent in the year ending June 1999) finally began to be reflected in the CPI, with the 12 month rate of inflation turning positive at end-June (2.1 percent) for the first time since August 1998.

### **E. Balance of Payments**

26. Armenia's current account deficit, which was 31 percent of GDP in 1995, declined to 26-28 percent of GDP in 1996-97 (Table 25). Exports declined from around 23 percent of GDP in 1995 and 1996 to about 20 percent of GDP in 1997, partly reflecting lower jewelry exports. Imports, at 59 percent of GDP in 1997, were roughly the same relative to GDP as in 1995, supported by a substantial increase in private transfers and workers' remittances that

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<sup>13</sup> Despite the increase in treasury bill rates, both dram and dollar deposit and lending rates declined in the first quarter of 1999. A possible explanation for this divergent trend is that the data on lending rates are a weighted average of all loans, including special operations which have been growing in importance (e.g., foreign-financed, low-interest credits to small businesses), and publicly guaranteed loans to some state owned enterprises at below-market rates.

<sup>14</sup> Dram broad money declined even faster than reserve money, by more than 20 percent.

<sup>15</sup> This was accomplished in part through the use of funds from the special privatization account, which had been to cover expenditures in the third quarter, to repay the CBA in June.

helped offset declining official transfers. Services, which had recorded a small deficit in 1995 and 1996, were modestly in surplus in 1997.

27. Armenia has been shifting its trade away from CIS countries (Table 28). While over 60 percent of Armenia's exports went to CIS countries in 1995, by 1997 this share had declined to just over 40 percent. Similarly, in 1995 roughly half of Armenia's imports came from CIS countries; in 1997 this figure was around one-third.<sup>16</sup> The commodity composition of exports also changed, with declines in the share of mineral and chemical products, and increases in the share of food, drinks and tobacco, and non-precious metals (Table 27). There were no clear trends in the composition of imports over this period.

28. Capital flows strengthened from 1995 to 1997, reflecting a decline in amortization obligations and increasing foreign direct investment (FDI). Financing from international financial institutions declined, but this was more than offset by a substantial growth in bilateral financing. The net result was a steady increase in gross official reserves, from 1.7 months of imports of goods and non-factor services at end-1995 to 3.1 months at end-1997.

#### **Developments in 1998 Prior to the Russian Crisis**

29. During the first nine months of 1998, Armenia's trade and current accounts were improving. Exports were up 14 percent, imports down 2 percent, and the trade deficit had declined by about 3 percent of GDP. Private transfers were modestly higher than a year earlier, but not enough to offset declining official transfers. As a result, the current account deficit, in dollar terms, was broadly unchanged with respect to the same period in 1997. In contrast, the capital account showed substantial improvement, despite further declines in financing from international financial institutions,<sup>17</sup> reflecting a rephasing of disbursements from Russia and sizable FDI associated with privatization.<sup>18</sup> Overall, gross official reserves grew further, to 3.3 months of imports of goods and non-factor services at end-September.

#### **External Developments After the Onset of the Russian Crisis**

30. The Russian crisis strongly affected Armenia's 1998 fourth quarter balance of payments. Exports dropped by one-third relative to a year earlier, while imports were broadly unchanged, resulting in a sharp increase in the trade deficit. In addition, private transfers and

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<sup>16</sup> Most of the decline in the CIS share in total imports was on account of trade with Turkmenistan, following the suspension of natural gas imports in the second quarter of 1997.

<sup>17</sup> The low level of disbursements from international financial institutions reflected, in part, delays in the execution of projects financed by the EBRD and World Bank.

<sup>18</sup> The privatization of Armentel (the telecommunications company) alone accounted for US\$73 million in privatization receipts, and a total of US\$94 million in FDI.

non-interest factor services were about half the level of a year earlier and, as a result, the current account deficit increased by over 50 percent from the fourth quarter of 1997. More than offsetting this deteriorating current account, all categories of capital flows increased relative to a year earlier, in large part as a result of a concerted international effort to catalyze additional financing and transfers to assist Armenia in dealing with the impact of the Russian crisis. Gross official reserves increased to 3.6 months of imports by end-1998, despite the high level of CBA intervention in the foreign exchange market.

31. In the first half of 1999 exports recovered somewhat, reflecting in part recovering diamond exports. Imports, on the other hand, declined sharply—down 10 percent from the same period a year earlier—largely due to the depreciation of the exchange rate. Other factor services and private transfers combined were down by more than one-fourth, partly offsetting the declining imports, but the current account deficit nonetheless fell by about US\$15 million. Despite this improvement in the current account (before transfers), and an increase in official transfers, declining bilateral and multilateral financing contributed to an overall negative balance of payments. As a result, gross official reserves fell more than 10 percent in dollar terms (from US\$298 million to US\$265 million). Since imports fell about the same amount, gross official reserves remained unchanged as a share of imports.

#### **F. External Debt Developments<sup>19</sup>**

32. Since independence, Armenia's external debt has increased rapidly. While the country started with little or no external debt (after signing the "zero option" agreement with Russia),<sup>20</sup> By end-1997 the debt stock had reached US\$800 million, or about 50 percent of GDP (Table 26).

33. In 1998, Armenia stepped up efforts to slow the growth of debt and improve its terms. A nonconcessional debt to the European Union of ECU 51 million was restructured on more favorable terms,<sup>21</sup> a new loan from Russia for the energy sector was negotiated, the CBA withdrew a guarantee on a US\$7 million nonconcessional loan, and the external debt of the telecommunications company was converted into equity. As a result, the stock of external debt (while increasing by US\$20 million) declined to 43 percent of GDP. The stock of debt was broadly unchanged in the first half of 1999.

34. While Armenia's debt has been rising, so has the share of debt on concessional terms. From about 26 percent in 1995, concessional debt increased to more than 60 percent of the

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<sup>19</sup> For more detail on external debt developments, see chapter IV.

<sup>20</sup> This agreement relieved Armenia of any obligations related to the former U.S.S.R.'s external debt, in exchange for Armenia forgoing claims on any U.S.S.R. external assets.

<sup>21</sup> The grant element of this restructuring package was estimated at 56 percent.

total by end-June 1999. As a result, the net present value of Armenia's outstanding external debt grew more slowly than its nominal debt, reaching 29 percent of GDP at end-1998.

### **G. Exchange and Trade System<sup>22</sup>**

35. Armenia has maintained a very liberal exchange system. Access to foreign exchange is unrestricted, and the dominant market for foreign exchange is the interbank market. Armenia also maintains a liberal policy on foreign direct investment, which is set out in the 1994 Law on Foreign Investments. Corporate profits or proceeds from the sale of assets may be repatriated without restriction. Certain foreign investors enjoy tax benefits, although progress has been made toward uniform tax treatment of all enterprises.

36. Armenia has also pursued a liberal trade policy. The import regime is simple and relatively open, with a low tariff structure. There are no quantitative restrictions on imports or exports. Negotiations on Armenia's accession to the WTO, which have been ongoing for several years, have now entered the final stage.

37. Since January 1995, Armenia has had two tariff rates—0 and 10 percent. Zero rated products include staple foods, fuel, essential pharmaceuticals, basic clothing, raw materials used in the production of exports, sugar, medical equipment, oil products and humanitarian aid. The latest revisions to the tariff schedule took place in January 1999, with the tariff being reduced from 10 to 0 percent for a few agricultural products, textiles and vehicles, and increased from 0 to 10 percent for a variety of raw materials and manufactured products. The net impact on the average tariff from this reform was minimal.

38. Nontariff restrictions are limited to the importation of goods that pose health, security or environmental hazards, such as weapons, nuclear materials and illegal drugs. Import license requirements are limited to medicines (subject to approval by the Ministry of Health), and agricultural chemicals (administered by the Ministry of Agriculture).<sup>23</sup> Export licenses are required for textiles destined for the European Union (in accordance with an agreement with the EU), nuclear and nuclear-related products, technology with direct military applications, medicines, selected live animals and plants. There are no export subsidies.

### **H. Structural Reforms**

39. Armenia has made significant progress in structural reforms. The Russian crisis and the uncertainty that it caused in early 1999 slowed these reforms, but the pace of reform has since started to recover.

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<sup>22</sup> For more details on Armenia's exchange system, see the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions, 1999.

<sup>23</sup> A fixed customs fee, to cover the cost of customs operations, is charged on specific operations. The fee generally varies from dram 1,000 to dram 5,000.

## **Privatization**

40. Enterprise privatization in Armenia began in 1994, and is guided by a Privatization Law. As of end-1997, about 60 percent (around 6,000) of all small enterprises, and about 60 percent (1,250) of all medium and large enterprises, had been privatized (Table 29). This is in contrast to the experience in many BRO countries, where progress on small-scale privatization has typically outpaced medium- and large-scale privatization. Most privatization receipts from the sale of enterprises to foreigners have been reserved in a Special Privatization Account (SPA) held with the CBA. The government is in the process of developing a medium-term plan for the use of the principle in this account.

41. In 1998, the pace of privatization slowed, reflecting both the fact that the medium- and large-scale privatization process had moved to some of the country's largest companies, and the impact of the Russian crisis on investors' interest. Despite this, more than 600 small enterprises and 200 medium and large enterprises were sold in 1998, bringing the total number of enterprises sold to 65 and 74 percent, respectively, of the pre-1992 stock of such firms. Key developments included the privatization or liquidation of remaining state-owned flour mills and bakeries, the privatization of the telecommunications company, the sale of two hotels to foreign investors, and the signing of a lease with an option to buy for the Yerevan Brandy Factory.

42. In the first quarter of 1999, the pace of privatization slowed further, as less than 100 enterprises (76 small enterprises and 16 medium- and large-scale enterprises) were sold. The government unsuccessfully attempted to sell a number of other enterprises. Privatization accelerated toward the end of the second quarter of 1999: the sale of the brandy factory was finalized; the government sold its remaining shares in a large commercial bank, and a major chemical plant, a precious stone company and a hotel were sold to foreign investors.

## **Banking and Payments System Reform<sup>24</sup>**

43. Armenia's banking system consists of the CBA and 31 commercial banks, including 3 foreign-owned banks. While Armenia's commercial banks were characterized by large volumes of non-performing loans prior to 1996, significant progress has been made in improving the quality of their loan portfolio since then (Table 30 - 31; see also Chapter III). The strong economy allowed banks to raise earnings and accumulate capital, which in turn allowed them to write-off all pre-1996 non-performing loans at the end of 1997. Since end-1997, despite some accumulation of new non-performing loans, particularly after the onset of the Russian crisis, the level of non-performing loans has not exceeded 11 percent of total loans.

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<sup>24</sup> For more detail, see Chapter III.

44. The level of both off-site and on-site supervision has increased. Following the introduction of a new chart of accounts in January 1998, all banks adhere to International Accounting (IAS) Standards. The CBA strengthened the prudential regulations in April 1999, raising the minimum general and core capital-adequacy ratios, respectively, to 12 and 8 percent, changing the risk weighting on some items, and reducing the maximum open foreign currency exposure from 40 percent to 30 percent.

45. There were a few cases of CBA forbearance of prudential requirements in 1998 and early 1999. Non-compliance has been facilitated by the low level of penalties and the relatively liberal policy of the CBA with regard to negotiating agreements for improved performance with banks not meeting prudential standards.<sup>25</sup> In mid-1999, the CBA decided to increase penalties for failure to adhere to reserve requirements, to impose penalties automatically in the future for violation of prudential regulations, and to refrain from negotiating with banks in violation of prudential standards.

46. Most payments in Armenia are settled through CBANET, an electronic payments system based on the SWIFT format and covering the entire country. The CBA and major commercial banks also maintain access to international markets through the SWIFT system.

#### **Energy Sector Financial Rehabilitation**

47. Reforming the energy sector, and strengthening its financial position, has proven to be difficult. In September 1998, the government issued a decree including steps to be taken for the financial rehabilitation of the energy sector. The decree set forth a timetable, and assigned responsibility, for measures to reduce technical and commercial losses (including theft), improve energy generation efficiency, raise collections rates, and strengthen the management, accountability and reporting of the financial situation of the consolidated energy sector. As part of the reforms, on January 1, 1999, electricity tariffs were raised on average by 12 percent.<sup>26</sup> In addition, the 1999 budget included ceilings on the electricity consumption of budgetary organizations, and electricity companies were instructed to cut off supplies to budgetary organizations exceeding these ceilings. Agreement has also been reached to sell part of the gas pipeline network in exchange for gas deliveries.

48. While there has been progress in reducing technical and commercial losses, collections have not increased as hoped (Table 32), and the authorities have continued to rely on noncash transactions to settle their outstanding liabilities. Cash collections actually declined sharply, from 77 percent of billings in 1998 to 67 percent of billings in the first half of 1999. While this poor performance was due in part to the fact that the budgetary appropriation for electricity consumption by budgetary organizations proved to be

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<sup>25</sup> One bank has been out of compliance with prudential requirements since July 1998.

<sup>26</sup> Tariffs for households were raised 25 percent. At the same time, the new budgetary family allowance system was designed to cover the cost of the increase for low income families.



unrealistically low, there was also a slowdown in collections from households and commercial consumers in the first part of 1999. As a result of poor collections, the sector's debts grew by almost dram 8 billion in the first half of 1999, reaching close to dram 110 billion (about 11 percent of GDP, or more than 100 percent of annual energy sector revenues).

49. In mid-1999, the authorities took a number of significant steps to improve collections. As most major debtors to the sector were budgetary or budget-dependant organizations—including the irrigation and drinking water sectors, district heating companies and a state owned chemical company—the government amended the 1999 budget to provide for full payment of the year's electricity bills by these organizations. At the same time, to minimize the need for future reliance on the budget to cover the electricity consumption of these organizations, the government introduced a system for monitoring their cash flows; assigned responsibilities for the management, financial monitoring, and design and implementation of financial plans for these organizations; and issued a decree requiring state-owned energy companies to disconnect non-paying customers within 15 days of their bills becoming overdue, with penalties for non-complying managers of energy companies. The government also conducted an audit of the energy sector's debts, and restructured those debts where possible.

50. Finally, the government has initiated the privatization of the energy distribution network. Tenders have been announced for the sale of parts of the electricity distribution system, with the aim of privatizing the electricity distribution system in 2000.

### **Civil Service Reform**

51. Armenia has begun the process of gathering the necessary information to reform the civil service. During 1999, the government conducted a survey of civil service employees, by grade and ministry, as well as a comparator pay survey and pilot surveys in the health and education sectors. In addition, it has prepared a draft Civil Service Law, in cooperation with the World Bank, which is expected to be presented to parliament during 1999.

52. As part of the process of civil service reform, the government is seeking to reduce employment levels to make it possible to increase average compensation. During 1998, employment in budgetary organizations was reduced almost 9 percent, with a further reduction of about 5 percent in the first half of 1999.

## **II. TAX SYSTEM REFORM IN ARMENIA**

### **A. Introduction and Background**

53. Despite a series of tax reforms following independence, Armenia found itself at end-1996 with a tax system which (i) was excessively reliant on direct taxes with rates that were too high, whether judged on their impact on economic growth incentives or in comparison to international standards; and (ii) produced too little revenue, which contributed to large fiscal

deficits. Starting in 1997, Armenia started a second round of tax reforms, designed to address these fundamental problems. This chapter reviews the reforms implemented in the period 1997–1999, assesses their contribution to alleviating these problems, and discusses the unfinished agenda of reforms.

54. Armenia had initiated a first stage of tax system reforms in 1992, after the breakup of the Soviet Union. In this first reform stage, Armenia introduced a value added tax (VAT), a system of excise taxes, a reformed enterprise profit tax (EPT), and a personal income tax (PIT). Later, in mid-1995, land and property taxes were added. Despite these early reforms, Armenia's tax system continued to suffer from systemic weaknesses in administration and the tax system continued to rely on a too narrow a tax base, which necessitated high tax rates. Armenia's tax revenues prior to 1997 were significantly weaker than those of most other CIS countries; only Georgia, Tajikistan and the Kyrgyz Republic had lower tax revenues in relation to GDP than Armenia (Table 33).

55. The first stage of reform efforts failed to significantly increase revenue from indirect taxes, and by end-1996 direct taxes still accounted for almost half of total tax revenue (Table 34). VAT and excise revenues were particularly modest because (i) both taxes continued to be applied on the origin principle for imports from CIS countries;<sup>27</sup> and (ii) collection procedures for taxes on domestically produced goods remained weak. In addition, direct taxes were adversely affected by the sharp decline in industrial production that followed the break-up of the Soviet Union, and the economic impact of the Nagorno-Karabagh conflict. Together with corporate tax laws poorly designed for a high-inflation environment, and non-transparent administrative procedures, these conditions further narrowed the effective tax base, and contributed to undermining compliance.

## **B. Tax System Reform, 1997–1999**

56. Faced with high fiscal deficits and public complaints about unfair tax laws and enforcement, Armenia's authorities initiated a second phase of tax system reform in mid-1997. Over the next two years, the authorities introduced a variety of tax legislation and administrative reforms. Their goals were to strengthen revenue performance by widening the tax base and enhancing administration, improve the system's fairness and transparency, and redistribute the tax burden from direct to indirect taxes in order to foster growth.

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<sup>27</sup> Imports from other countries were taxed on the destination principle. Because Armenia was a heavy net-importer from the CIS region, resulting revenue losses were considerable. The Ministry of Finance recently estimated the annual VAT revenue losses, caused by the adherence to the origin principle, at about 2.8 percent of GDP prior to the mid-1997 tax reform.

## **Reform of Tax Policy**

57. In 1997, the authorities adopted a two-tier reform strategy. First, they introduced measures to increase revenue from all taxes except the PIT and EPT. Second, they utilized part of the resulting revenue gain to streamline direct taxes and reduce the high marginal tax rates.

58. In the first part of the reform strategy, the most important step was to widen the tax base, in part by capturing an increasing share of the shadow economy. New excises were introduced on alcohol, tobacco products, petrol, diesel and cars, and the destination principle was applied on most imports. These measures contributed to an increase in revenues from indirect taxes by 4 ¾ percent of GDP. At the same time, revisions to the system of stamp duties, which introduced new duties and changed fees and their indexing mechanism, raised revenue further by almost 1 percentage point of GDP. To capture untaxed activities of the shadow economy, the authorities introduced a system of presumptive taxes for segments of the economy whose operations and profitability are difficult to monitor. These included retail shops, small kiosks, restaurants and other food services, and some transportation services. While these reforms were being implemented, a new simplified set of customs duties was adopted, with two rates: zero percent for most imported raw materials, and 10 percent for most manufactured and semi-manufactured goods.

59. The 1997 measures were followed by relatively minor amendments to the laws on VAT and excise (eliminating the excise on cars) in mid-1998, as well as more significant amendments to the law on presumptive taxes which raised revenues by about ½ percent of GDP on an annual basis. There was a considerable broadening of the presumptive tax base to include new professional activities, and an increase in presumptive tax rates.

60. The strong revenue impact of the above measures enabled the authorities to take the risky but important step of implementing the second part of their reform strategy: the reform of direct taxes with the goal of reducing the tax burden on business and individuals, thereby enhancing the fairness of the system and providing incentives for growth. Beginning in 1998, new EPT and PIT laws became effective. The former reduced the tax rate from 30 percent, to 15 percent for the first 7 million drams of taxable profit and to 25 percent from the remaining taxable profit. The new law also allowed for the deduction of necessary and proven expenditures (including social security contributions, insurance payments, interest payments on loans, and production related expenses), a favorable treatment of depreciation allowances (1 to 20 year depreciation periods), and the carry-forward of losses for an unlimited period. The new PIT law set tax rates of 15 percent, 25 percent, and 30 percent depending on the level of income. A tax-exempt income threshold of dram 8,000 per month was also established; this was raised to dram 17,000 per month in 1999 (the estimated cost of the minimum food basket as of January 1, 1999). However, despite these far-reaching reforms, the impact on tax revenue was limited, with revenue from direct taxes falling only from about 6 percent of GDP in 1996 and 1997 to 5¾ percent of GDP in 1998.

61. The onset of the Russian crisis in August 1998 added new urgency to the need to enhance revenue collections in Armenia. As industrial production and imports declined in the wake of the crisis, revenue performance was disappointing in late 1998 and the first half of 1999. Combined with problems in the treasury bill market, related to the impact of the crisis on investor confidence, this led to problems in the execution of the budget and the accumulation of payment arrears. To address this problem, and further enhance revenues, the authorities significantly raised excise taxes on cigarettes, as well as the hazardous goods tax on gasoline.<sup>28</sup> In a further tax reform initiative in late 1998 and the first half of 1999, changes were also made to the environmental taxes and fees. New taxes and fees were introduced, and the level of existing taxes and fees were raised to reflect more appropriately the societal costs of pollution and resource exploitation. Wherever feasible, indexation mechanisms for nominal fees were introduced to protect tax revenue from inflationary erosion.

### **Administrative reforms**

62. The main goal of the administrative reform efforts has been to improve collection efficiency by enhancing the skills and compensation of tax and customs officials, strengthening and integrating automated data storage and analysis facilities, increasing the effectiveness of audits, and improving relations between taxpayers and tax authorities in an effort to increase voluntary compliance. The Law on Taxes, enacted in April 1997, defined the rights and responsibilities of taxpayers, regulated their relations with tax authorities, introduced more realistic penalties and fines, and established new appeals procedures. The law was supplemented by a strategic action plan for the Tax Inspectorate, whose main elements included the establishment of guidelines for increased performance control of regional offices; increased emphasis on voluntary compliance, with stricter sanctions for those who knowingly engage in non-compliant activity; better provision of services to taxpayers; and the introduction of improved auditing procedures, with a particular focus on large taxpayers.

63. To improve the focus of administrative resources, the authorities introduced a minimum turnover threshold for VAT taxpayers, which is now dram 3 million. Taxpayer identification numbers were introduced, and automated information systems were installed in the Customs Department and Tax Inspectorate. To improve transparency in retail sales, the use of cash registers was required by government decree.

64. Important organizational changes include (i) the establishment in 1998 of the High Level Committee on Tax Arrears (HLC), chaired by the Primer Minister. The HLC was to address and resolve expeditiously the most complicated and largest cases of tax arrears, which

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<sup>28</sup> The tax increase on gasoline was initially implemented as a hazardous goods tax, as the authorities considered that they need to act quickly, and the law gave the government the authority to increase hazardous goods fees without parliamentary approval. The intention is to replace this hazardous goods tax with an excise tax in the 2000 budget.

typically involved poorly performing large state-owned enterprises. By end-June 1999 75 cases had been processed and resolved. However, the success of this committee in terms of revenue has been limited; and (ii) the establishment in mid-1999 of a Ministry of Revenues, which combined the Tax Inspectorate and the Customs Department. The aim of this reform is to more closely coordinate operations and share information. Furthermore, to improve collections in the Customs Department, the authorities in mid-1999 selected an international private company to conduct pre-shipment inspections.<sup>29</sup>

### **C. The Impact of Reforms**

65. The reform efforts in 1997 and 1998 led to a noticeable improvement in tax revenue performance, both in absolute terms and compared to other BRO countries. Armenia's overall tax revenues rose from about 13 percent of GDP in 1996 to 17 percent of GDP in 1998. While in 1996 Armenia's tax revenues were lower than all but three BRO countries, and almost 6 ½ percent below the average of BRO countries, by 1998 Armenia's tax revenues placed it in the middle of 12 BRO countries (excluding Belarus, Turkmenistan and Uzbekistan, which had not yet seriously begun the reform process), about 2 percent below the average of BRO countries.

66. This achievement is particularly significant, as it coincided with a reduction of the corporate and personal income tax rates, thereby contributing to the goal of enhancing incentives for economic growth. Combined, the broader tax base, lower tax rates and improved and more transparent tax administration have also improved the perceived equity of the system.

### **D. Remaining Items on the Reform Agenda**

67. Armenia has made substantial progress in tax reform in recent years, moving toward its dual goals of increasing revenues, and enhancing the environment for economic growth. In addition, the broadening of tax bases and reduction of tax rates, although not complete, has already contributed to a perception of a fairer tax system. Now Armenia needs to tackle the remaining issues on tax reform and increasingly turn its attention to improving tax administration, in particular tax enforcement and taxpayer relations

68. To complete the reform of the tax base and tax rates, the Armenian authorities will need to address several issues including reform of the tax base and tax rates, the applicability

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<sup>29</sup> The authorities also sought to address the growing stock of tax arrears by establishing a High Level Committee on Tax Arrears, chaired by the Prime Minister. The purpose was to establish a decision making body with sufficient political power to address and resolve the most complicated and largest cases of tax arrears, which typically involve poorly performing large state-owned enterprises. The success of this committee has been limited, with little revenue collected in 1998 and 1999.

of the VAT to the agricultural sector, the reduction and eventual elimination of remaining tax exemptions and holidays, and the abolishment of low yielding taxes.

69. Regarding efforts to further improve the tax and customs administrations, the recent establishment of the Ministry of Revenue should facilitate the much needed integration of the information and monitoring systems of the Tax Inspectorate, the Customs Department, and the collection arm of the State Fund for Social Insurance.

70. Regarding efforts to further improve the relations between the tax authorities and taxpayers, two recent experiences have shown how reform progress can suffer under pressures to produce revenue by relatively ad hoc means. In early 1999, the authorities experimented with a system of negotiated tax payments as a way to collect from taxpayers who have proven to be the most difficult to monitor. This experiment produced little revenue, and the government quickly abandoned the practice. Similarly, in an attempt to achieve revenue targets, in mid-1999 tax inspectors reportedly pressed for prepayments of tax liabilities from some taxpayers. These episodes demonstrate the fragility in the progress to date in improving both tax administration and the relations between the tax authorities and taxpayers.

71. The adoption of a rules-based system of voluntary filings and tax payments, supported by customer-oriented tax services should be accelerated so as to replace tight and at times seemingly arbitrary controls by inspectors. The appropriate penalties for non-filing, tax evasion, and tax avoidance need to be provided primarily by effective automated controls, and well targeted but tough rule-guided audit and enforcement actions. In this context, it would be important to develop a detailed code-of-conduct for tax inspectors and customs officials.

72. Finally, one important administrative constraint for the collection of tax arrears has been shortcomings in the institutional framework, and a lack of resources, for the efficient initiation and execution of bankruptcy and confiscation proceedings. Because of a lack of trained executors and judges, the sale of confiscated property and the handling of bankruptcy cases has been difficult. To encourage voluntary compliance with tax laws, with credible penalties for non-compliance, it will be important to improve the administrative and judicial capacity to handle cases of bankruptcy and liquidation.

### **III. ARMENIA: BANKING SECTOR VULNERABILITY ASSESSMENT**

#### **A. Introduction**

73. Armenia's banking sector in 1999 consists of thirty-one commercial banks, down from seventy-two banks in 1994. There are three foreign-owned banks, one of which is Armenia's largest bank in terms of capital. The banking system has expanded significantly over the last four and a half years, but the system remains relatively small; in mid-1999 total bank assets amounted to US\$290 million, or about 15 percent of GDP. Claims on the economy relative to GDP, representing about half of total assets, were about the same level

as in Georgia and among the lowest in the BRO countries. As the Armenian economy develops, it will be very important to ensure that the banking system is sound and able to provide the services required by a growing market economy. This chapter provides a preliminary assessment of the vulnerability of the Armenian banking system to various types of risks and its ability to cope with the consequences in case such risks materialize.<sup>30</sup>

## **B. Framework for Vulnerability Assessment**

74. The financial vulnerability of a banking system is a function of two general factors: its exposure to risks of various kinds, and its ability to absorb losses in the event those risks materialize. In general, banks face a number of risks, including those related to (i) macroeconomic instability; (ii) foreign exchange exposure; (iii) commercial default; (iv) excessive exposure individual borrowers or sectors; and (v) maturity mismatch between a bank's assets and its liabilities. A bank's ability to absorb losses related to these risks depends on the bank's profitability, its capital/asset ratio, the extent of its provisioning against possible bad debts, and its liquidity. The banking supervisory authority—in this case the CBA—has at its disposal, and must efficiently use, instruments with which to affect both the banking system's exposure to risks and the ability of the system to absorb potential losses. In what follows, the vulnerability of the Armenian banking system (but not of individual Armenian banks) is assessed, with regard to the factors indicated above. In addition, this chapter highlights areas where the CBA has already taken action to reduce the vulnerability of the system as well as those areas where additional actions may be required.

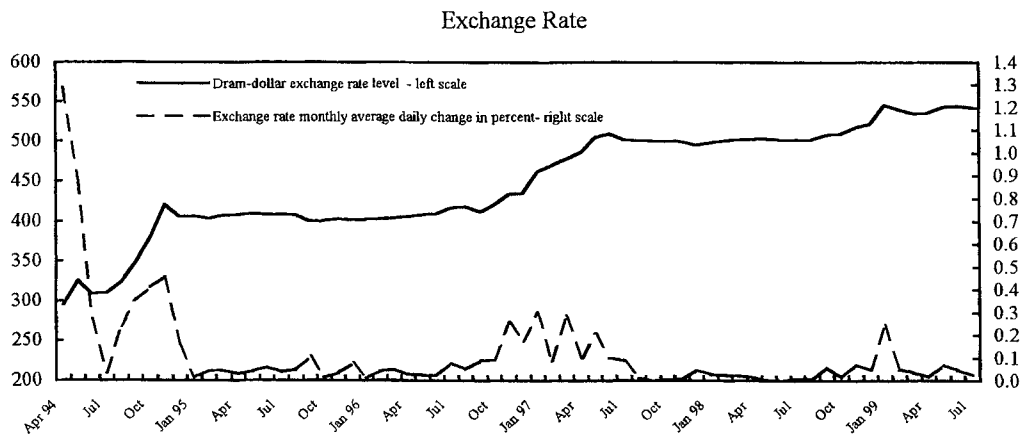
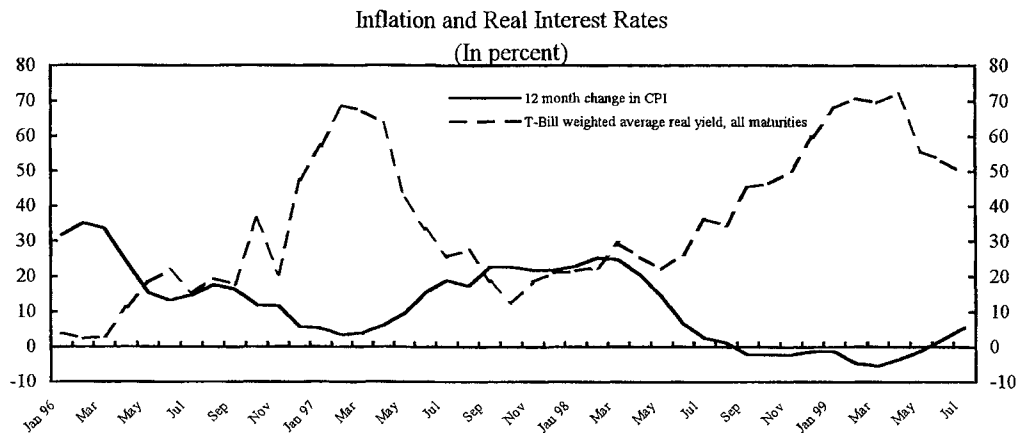
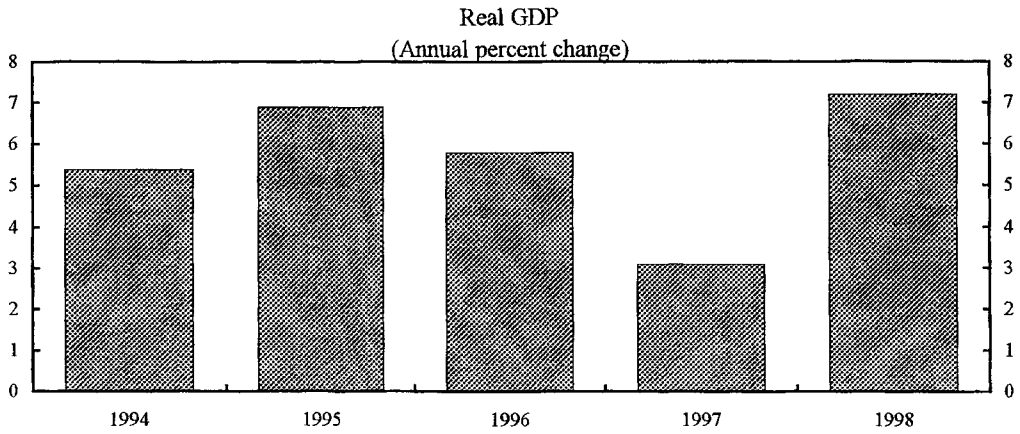
## **C. Risks Facing the Armenian Banking System**

75. After the difficult initial years of transition up to 1994, the Armenian financial system has benefited from four and a half years of economic recovery, declining inflation and a relatively stable exchange rate (Figure 8). Even while confronting the Russian crisis, which has led to severe economic problems for many of the BRO countries, Armenia's GDP growth remained strong, inflation low, and the exchange rate fairly stable. As a result, Armenian banks have confronted a comparatively moderate risk related to the overall macroeconomic environment. However, this relatively limited risk must be qualified, as real interest rates on both dram and dollar lending operations have remained at extremely high levels (Figure 9). High real interest rates represent risks to banks, as they may foster adverse selection, with only the most speculative potential borrowers willing to pay such rates. Any decline in general economic activity may be disproportionately felt by these high-risk borrowers, leading to their financial distress and eventual default.

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<sup>30</sup> The framework for the analysis in this chapter is based on "Mapping Financial Sector Vulnerability in a Non-Crisis Country," by Patrick T. Downes, David Marston and Inci Otker-Robe, IMF, May 1999. The limited timespan under which the current system has been operating will not allow for a quantitative analysis relying on stress tests to simulate the impact of shocks on banks' portfolios of non-performing assets.

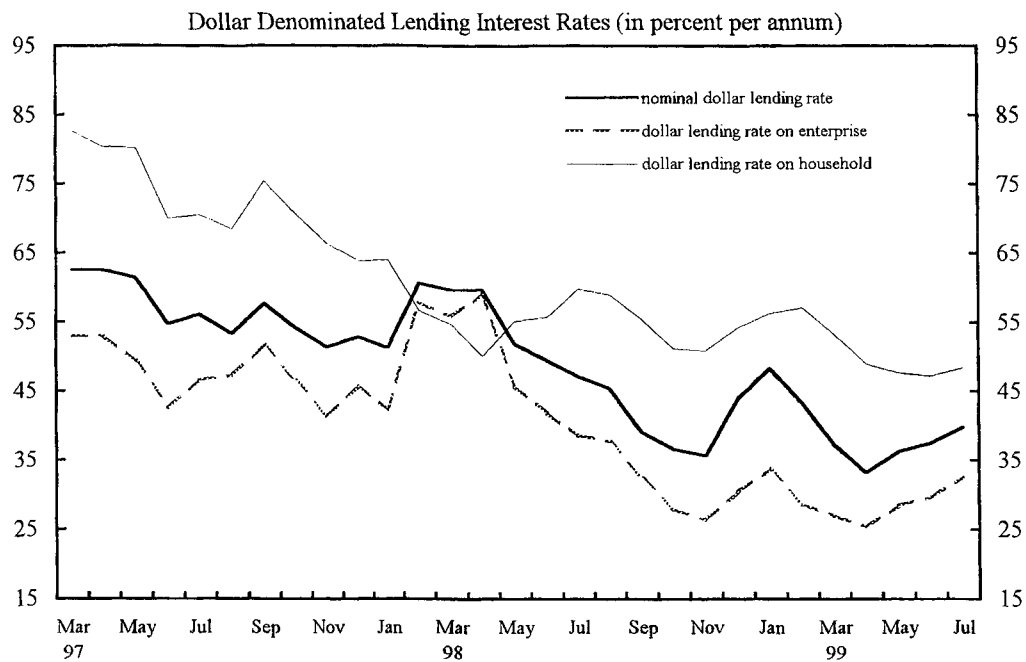
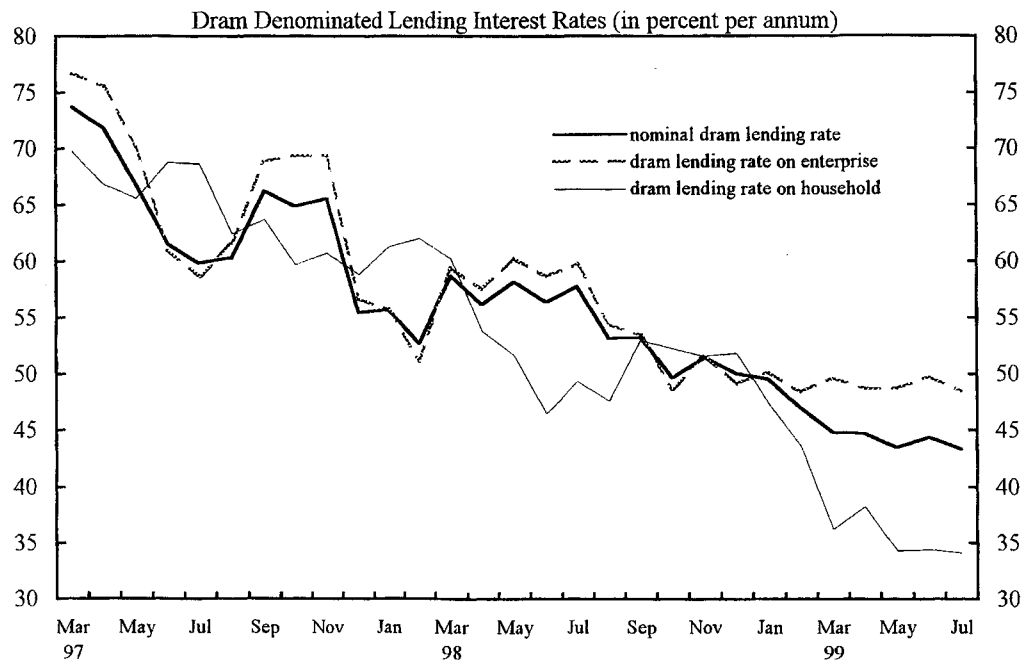
Figure 8. Armenia: Selected Macroeconomic Indicators



Sources: National authorities and Fund staff estimates.



Figure 9. Armenia: Nominal Interest Rates on Lending 1/



Sources: National authorities and Fund staff estimates.

1/ 3-month moving average.

76. Despite this recent macroeconomic stability, banking intermediation in Armenia has increasingly been denominated in foreign currency,<sup>31</sup> and banks have been allowed to maintain large aggregate foreign open positions (Figure 10).<sup>32</sup> This has rendered Armenian banks particularly vulnerable to risks associated with large foreign exchange exposure. In an attempt to limit this risk, the CBA decided to limit, effective April 1, 1999, banks' foreign open position to 30 percent of total capital, down from 40 percent. The foreign open position is expected to be reduced as the authorities intend to lower the limit to 25 percent in January 2000.

77. The indirect exposure of the banking system to foreign currency risk is also a source of concern. Banks in Armenia rely heavily on foreign borrowing to lend domestically in foreign currency, and most of the foreign currency borrowers are themselves exposed to foreign currency risk. In the event of an external shock, leading to a sharp depreciation in the exchange rate, these borrowers may become financially distressed and default on their loans. As a result, the level of non-performing loans held by banks would rise and bank's balance sheets would deteriorate. Moreover, even where the borrower has no other foreign exchange risk in his business, depreciation would drive up the cost of servicing the foreign currency denominated bank loans, increasing the risk of default. While the long record of stability in the exchange rate of the dram provides some comfort that economic policy will continue to be consistent with a relatively stable exchange rate, and thereby reduces the risk related to potential exchange rate volatility, it does not eliminate it.

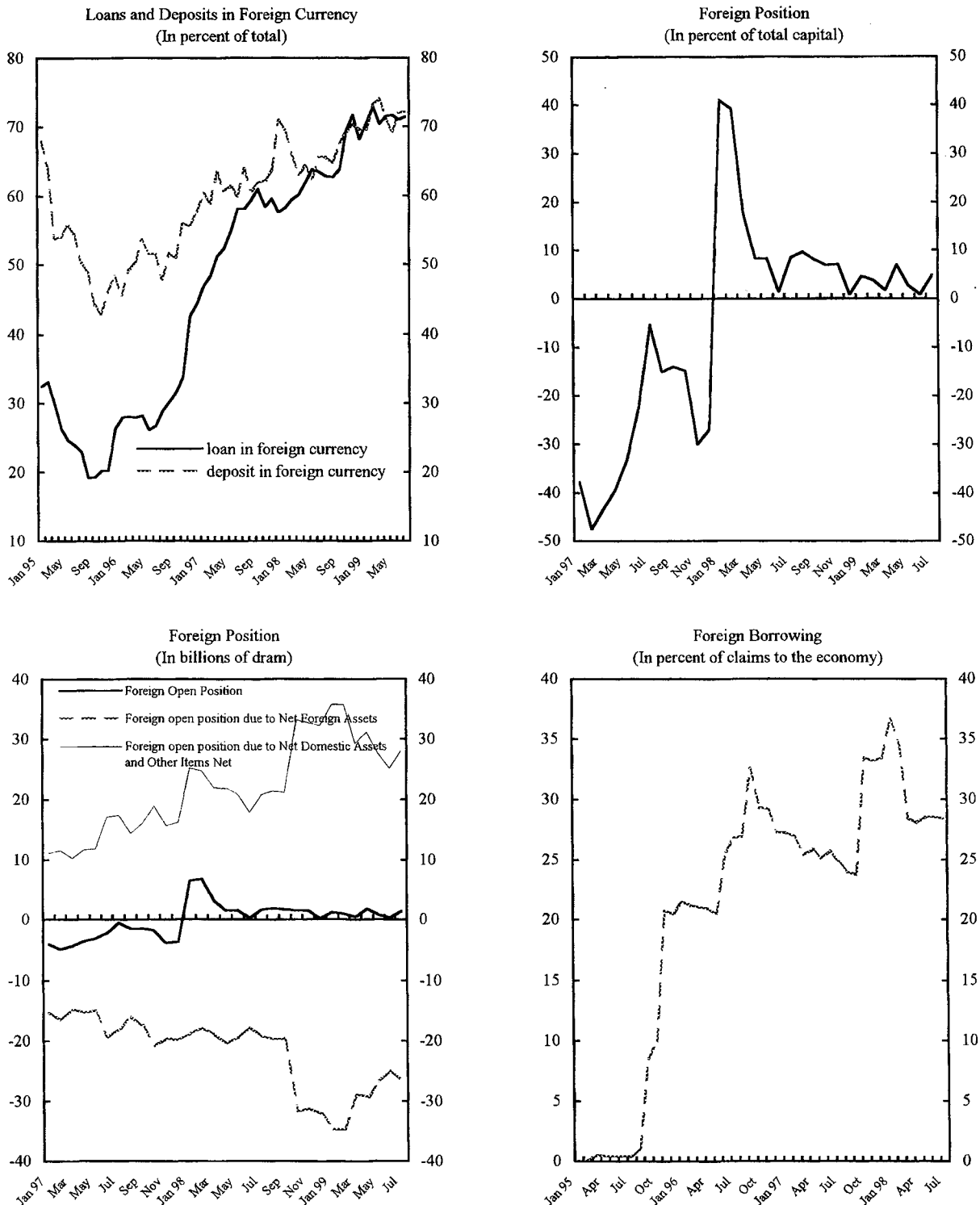
78. The strong economic performance of recent years has also contributed to reduce microeconomic risks. Notwithstanding the temporary deterioration in the quality of banks' portfolios in the first quarter of 1999, the level of non-performing loans is historically low. As of June 1999, around 88 percent of total loans were classified as standard loans, 7 percent were classified as substandard and 5 percent were doubtful loans (Figure 11). It should be noted, however, that the recorded low level of non-performing loans may understate the true level of risk, as the current classification is based solely on the number of delinquent days and the nature of the collateral. In order to improve the quality of loan monitoring, the CBA will soon introduce an improved loan classification system, whereby the classification and required provisioning will also rely on the banking supervisory authority's subjective assessment of the financial position of the borrower and its capacity to repay the loan.

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<sup>31</sup> The share of foreign currency deposits in total deposits was about 70 percent in mid-1999, up from 50 percent at the beginning of 1995. Loans to the economy denominated in foreign currency represent about 80 percent of total loans, up from 30 percent at the beginning of 1995.

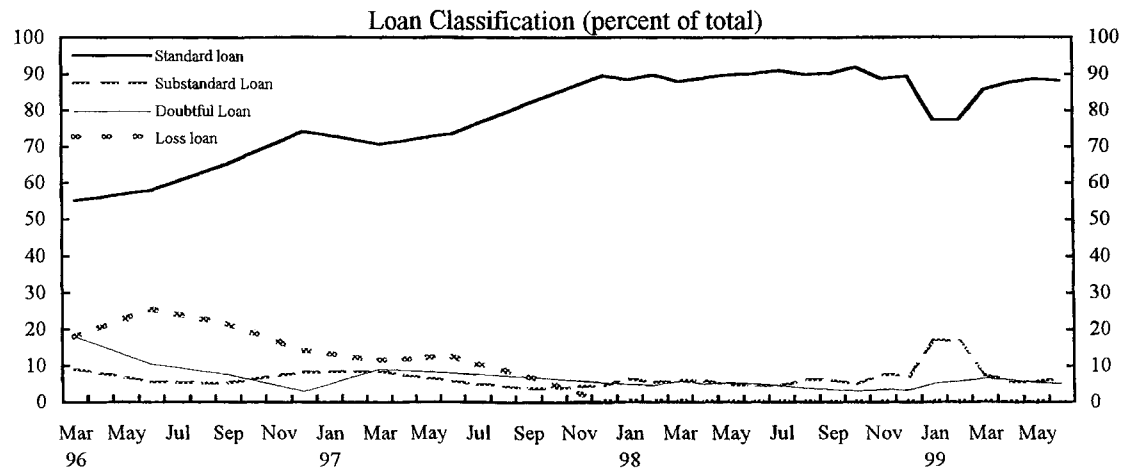
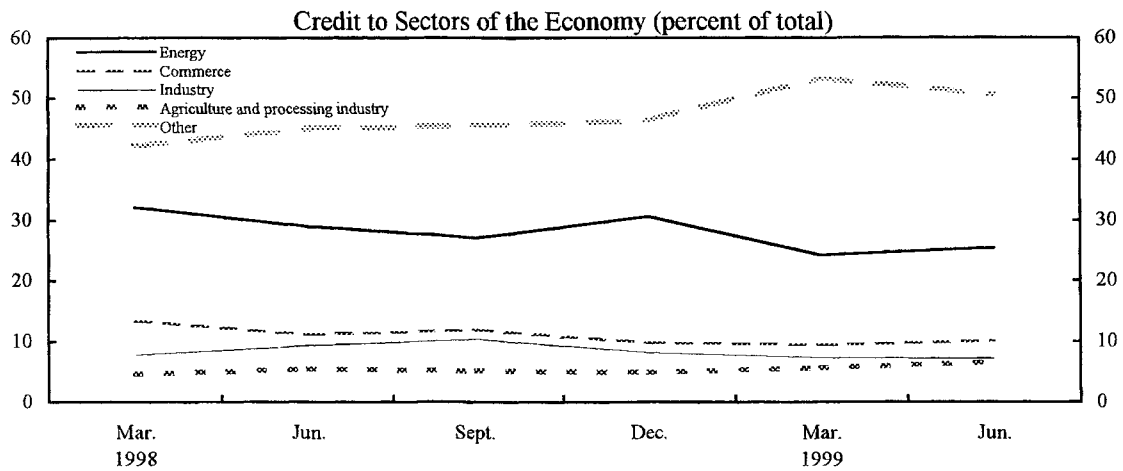
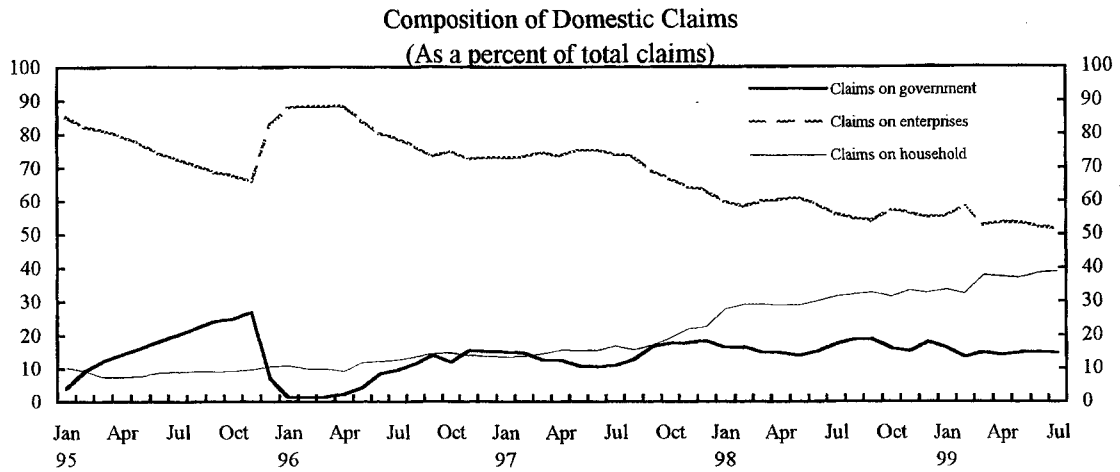
<sup>32</sup> The aggregate foreign open position of the banking system is measured by adding the long and short positions of each bank. Thus, movements in this aggregate provide an indication about the exposure of the system as a whole, but do not reveal the extent to which individual banks may be exposed.

Figure 10. Armenia: Overall Banking System Foreign Currency Risk



Sources: National authorities and Fund staff estimates.

Figure 11. Armenia: Banking System Loan Portfolio



Sources: National authorities and Fund staff estimates.

79. The risks associated with commercial default would arise from a possibly overly optimistic assessment of the capacity to repay of private sector enterprises. Over the last two years, credit to the economy has risen by 40 percent annually (30 percent in real terms) owing to an increase in lending to a growing private sector (Figure 12). While such growth could be considered a positive factor, there is the risk that banks have assessed the creditworthiness of these companies on the basis of their performance during the recent period. On the other hand, the declining share of loans to state owned enterprises (SOEs)<sup>33</sup> should help mitigate the default risk facing the banking system.

80. In order to limit the risk of an insufficiently diversified portfolio of loans, the CBA maintains a limit on a bank's lending to a single borrower of no more than 20 percent of capital. In recent times, however, this important prudential requirement has been breached by wide margins, as some banks have extended loans to SOEs, especially those in the energy sector, which were several times greater than the bank's capital. Stricter enforcement of the single borrower limit should foster further diversification of the loan portfolio.

81. Maturity differences between loans and deposits remain small in Armenia. Most lending activities by Armenian banks have relatively short maturities, with the average maturity of loans currently around 5 months (Figure 13). Therefore, the risk coming from a maturity mismatch between lending and deposit activities is insignificant. However, with a likely increase in the average maturities for loans that could be expected with further macroeconomic stabilization, the maturity mismatch for banks could grow significantly. Thus, the decision by the CBA to raise on April 1, 1999 the minimum ratio of liquid assets to demand liabilities from 40 percent to 60 percent is a sound precautionary step toward a better management of liquidity risk.

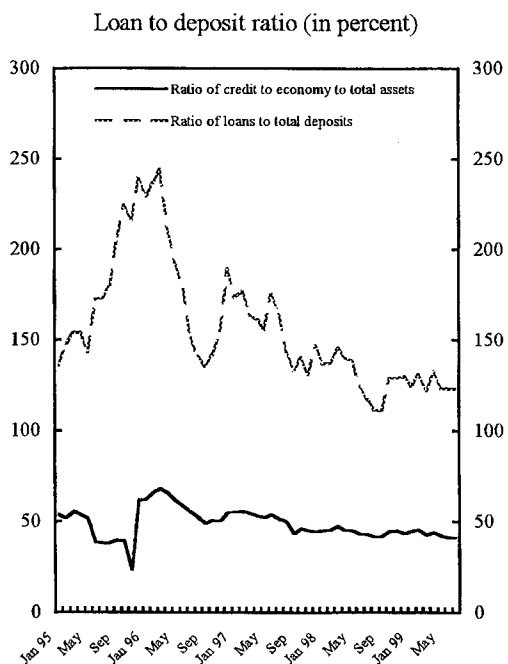
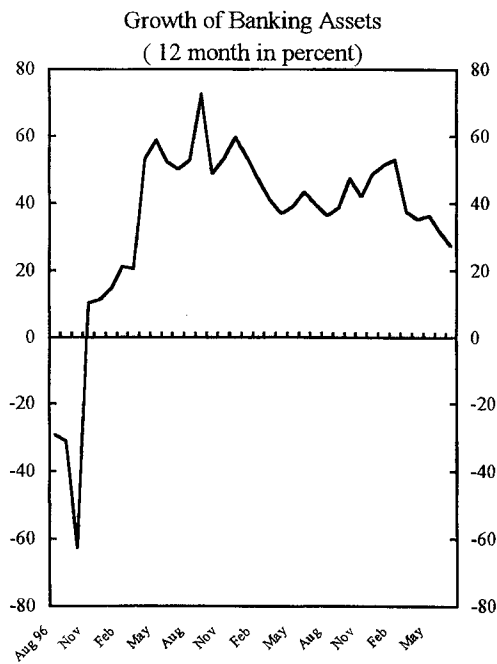
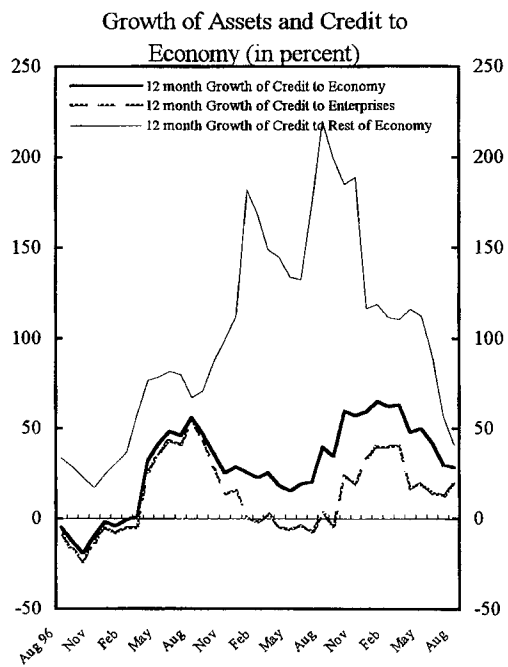
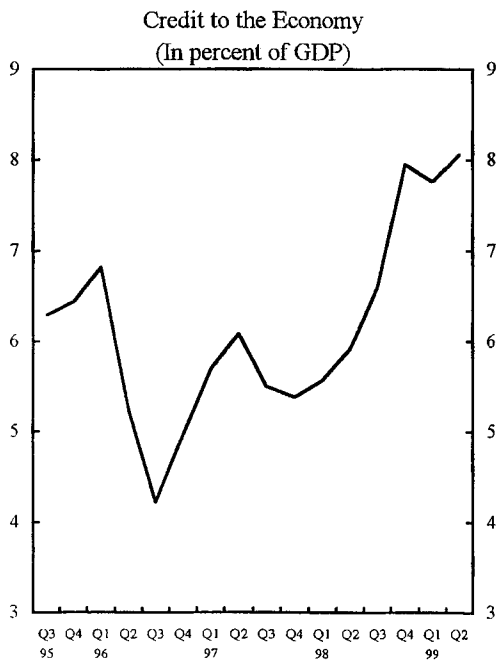
#### **D. Ability of the Armenian Banking System to Absorb Losses**

82. The strong economic performance of recent years has helped banks to greatly improve their capacity to absorb losses. Despite a reduction in banking intermediation margins and the recent adverse impact of the Russian crisis on economic activity, the profitability of the banking system remains high. Banking intermediation margins have declined continuously over the last four years, as lending rates have fallen faster than deposit rates, but they still remain high, at about 20 percent (Figure 14). A major factor behind the decline has been increased competition, especially from a leading international bank.

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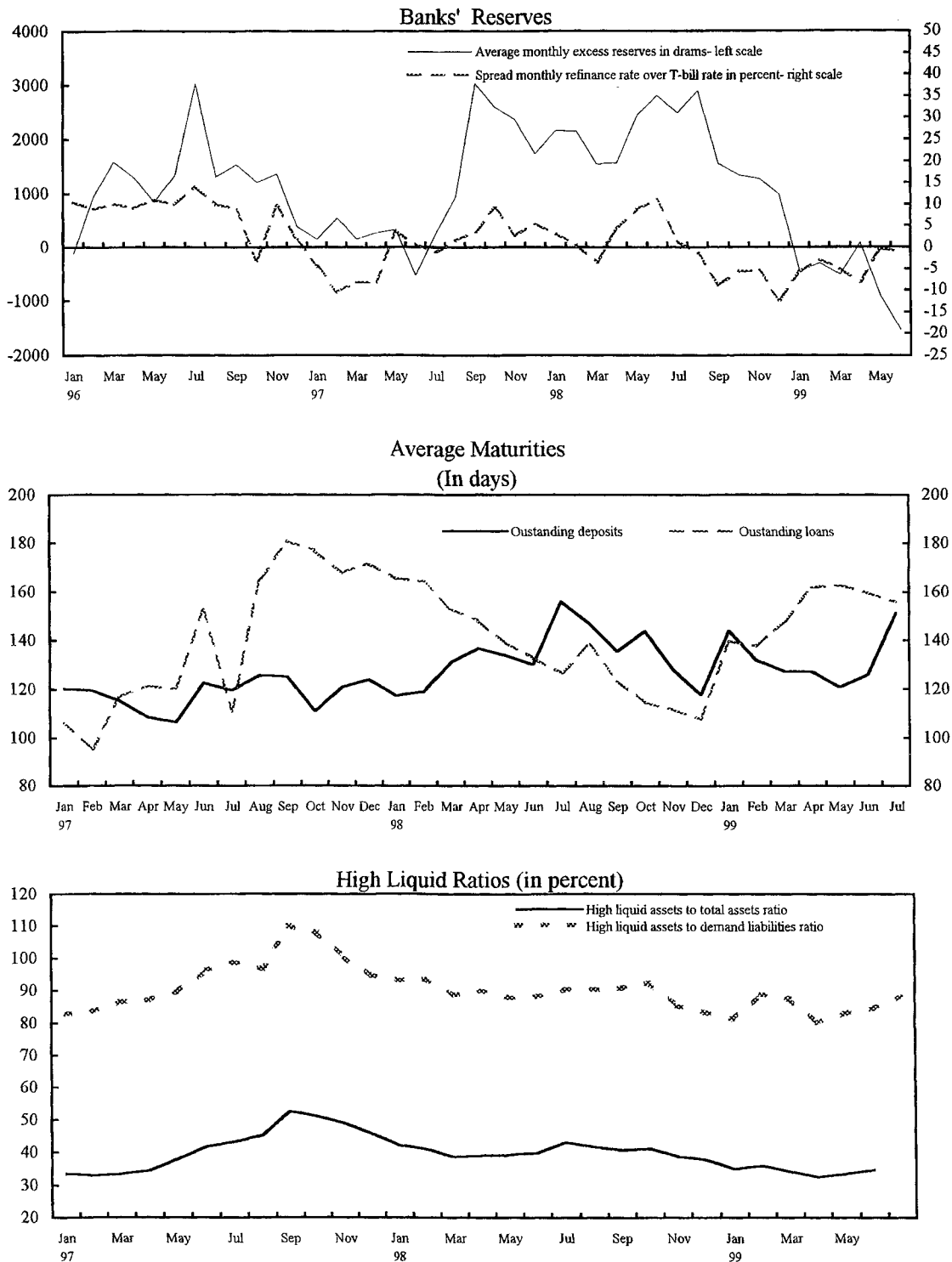
<sup>33</sup> The share of loans to public enterprises, which has been declining since the initial stages of transition, is now less than half of the total loan portfolio to enterprises, while credit to individuals and family-owned businesses has increased to 40 percent of all bank loans.

Figure 12. Armenia: Banking System Balance Sheet Indicators



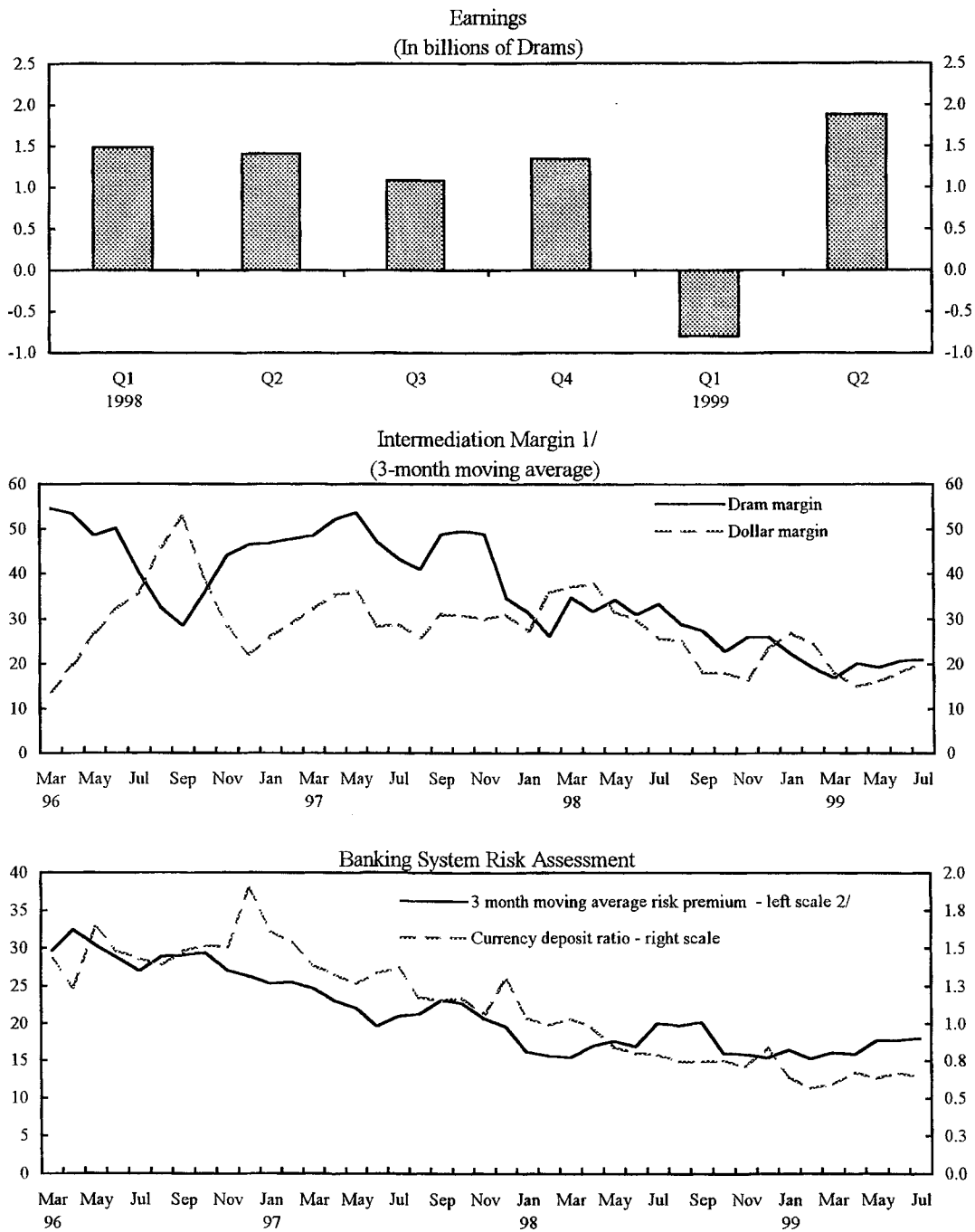
Sources: National authorities and Fund staff estimates.

Figure 13. Armenia: Overall Banking System Liquidity



Sources: National authorities and Fund staff estimates.

Figure 14. Armenia: Overall Banking Profitability and Market Assessment



Sources: National authorities and Fund staff estimates.

1/ Defined as the difference between a weighted average rate on lending and a weighted average rate on deposits.

2/ Defined as the difference between the 3 month dollar deposit rate in Armenia and the 3 month Libor dollar deposit rate



83. On the strength of high earnings, banks were able in 1996 and 1997 to write-off all pre-1996 non-performing loans, while raising their level of capital (Figure 15). With the completion of this write-off process, banks improved their profitability in 1998. Total banking system earnings in 1998 amounted to US\$10 million, with an average return to equity of 24 percent and a return to assets of 3 percent. Following the onset of the Russian crisis, new provisioning led to overall losses in the first quarter of 1999. Recent data indicates, however, that the level of profitability in the second quarter is back to the level prevailing in 1998.<sup>34</sup>

84. The growth of total banks' capital over the past few years has been impressive, increasing from dram 3.5 billion at the beginning of 1995 to about dram 28 billion in mid-1999 (about US\$53 million). As of end-July 1999, the 12-month growth rate of capital was about 50 percent. Such growth is expected to continue, with further planned increases in the total required minimum capital from US\$0.8 million currently to US\$2.0 million by 2003. As a result of the increase in capital, and the high proportion of treasury bills in their portfolios, capital adequacy ratios for the banking system are significantly above the minimum required. Total capital to risk weighted assets for the system stands at 27 percent, about 15 percentage points above the new floor of 12 percent, while the core capital to risk weighted assets ratio, at 25 percent, is more than three times the floor of 8 percent.<sup>35</sup>

85. The capital adequacy ratios may, however, be somewhat overstated, reflecting some under provisioning for bad loans. As of end-May 1999, the level of provisioning against classified substandard and doubtful loans was equivalent to about 25 percent of the total value of such loans. This level of provisioning may be too low because (i) the risk weight attached to government guaranteed loans is zero, and (ii) the mechanical nature of loan classification procedures may underestimate the true level of substandard loans.

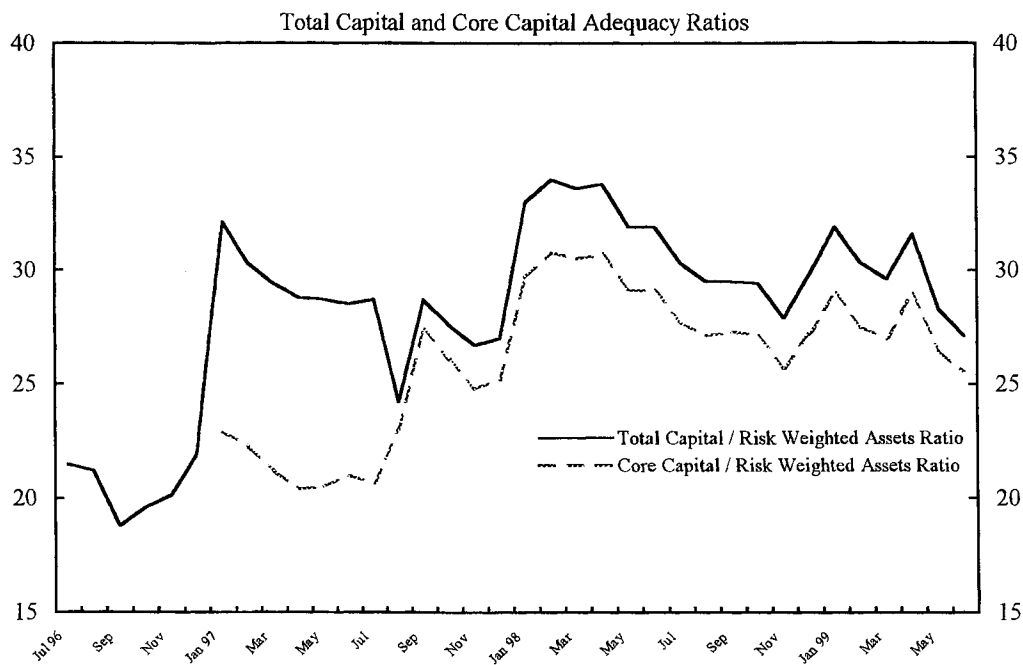
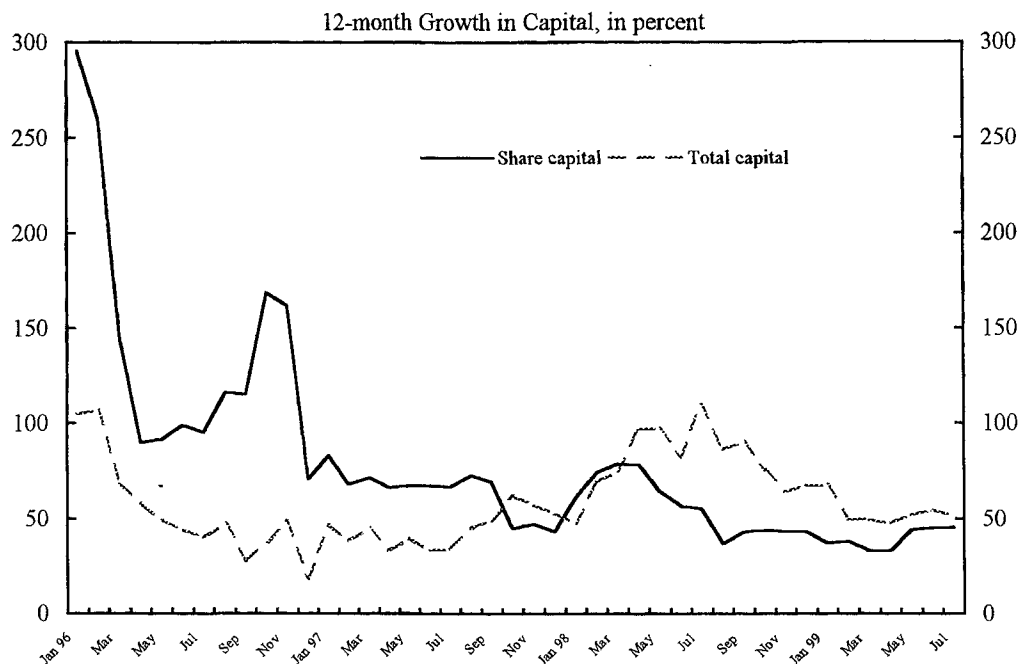
86. In addition, the level of liquidity in the banking system, usually a good leading indicator of banking distress as well as a measure of the system's short-term ability to absorb losses, has declined modestly in the last year. The ratio of highly liquid assets to total assets declined to 35 percent in July 1999 from 37 percent a year ago; likewise, the ratio of highly liquid assets to deposit liabilities decreased by two percentage points, but remains quite high at 88 percent.

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<sup>34</sup> Despite the recovery of profits and consequent growth in capital in the second quarter of 1999 the capital adequacy ratios declined somewhat, reflecting more rapid growth in risk-weighted assets.

<sup>35</sup> The ongoing strengthening of risk weightings may lower the capital-adequacy ratio somewhat. Risk weights on some items were increased in May 1999, and the CBA has announced that effective January 2000 they will raise from 0 to 20 percent the risk assigned government guaranteed loans.

Figure 15. Armenia: Overall Banking System Capital



Sources: National authorities and Fund staff estimates.

87. The decline in liquidity was connected to the inadequacy of the penalty rate for deficiencies on required reserves. In Armenia, banks' demand for liquidity is often met through Lombard operations, although on occasion banks achieve this by breaching the legal reserve requirement. In 1998, banks' excess reserves held at the CBA averaged about dram 2 billion (about 20 percent of banks' deposits). In the first half of 1999, however, on average banks' required reserves held with the CBA were approximately 10 percent below the required level. While some banks may have genuinely lacked the liquidity to meet their required reserves, there was a built-in incentive to invest the reserves in other assets and pay a penalty on any shortfall, as the penalty rate was set in line with the CBA refinance rate, which was consistently below the treasury bill rate. To prevent this in the future, the CBA has raised the penalty for shortfalls in required reserves, beginning in August 1999, to well above the treasury bill rate. Following this change, banks have reconstituted their level of reserves at the Central Bank to the required level.

### **E. Market Assessment and Future Prospects**

88. Market confidence in the Armenian banking system improved fairly steadily over the period 1996 to 1999, as indicated by a decline in the risk premium. The risk premium, as proxied by the spread between three-month deposits rates offered by Armenian banks on dollar deposits and Libor deposit rates for similar maturities, is estimated at end-June 1999 at around 18 percent, down from 30 percent three years ago and roughly the same as before the onset of the Russian crisis.<sup>36</sup> Recent trends in the currency/deposit ratio—an alternative indicator of market assessment—gives a similar result, as it has declined from 1.5 at end-March 1996 to 0.9 at end-June 1999.

89. The market assessment reflected in the risk premium and the currency/deposit ratio is consistent with the above vulnerability assessment, which indicates that the level of risk facing the banking system is declining. The strong macroeconomic performance in recent years has reduced the exposure to risks related to macroeconomic instability. While there is still considerable exposure to foreign exchange risk, it has been somewhat tamed by the stability of the exchange rate in recent years. Exposure to microeconomic risks has also declined in the last few years.

90. Equally important, indications are that the ability of the banking system to absorb losses is robust and rising. Profitability has remained high, and has contributed to strong capital adequacy ratios. While liquidity has declined somewhat, it is still adequate. And, while loan loss provisioning may currently be insufficient, the CBA is taking steps to improve provisioning. Indeed, the CBA is proceeding in a number of areas to reduce risk and increase the strength of the banking system.

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<sup>36</sup> Armenia does not have any restrictions on capital inflows or outflows and therefore, the spread between these two rates provides a good assessment of a risk premium.

91. While the overall picture is encouraging, neither the CBA nor the Armenian banks can afford to be complacent. Banks will have to adjust to an increasingly competitive environment in the coming years. Also, with the likely further development of capital markets in the context of an open capital account regime, new and diverse risks are likely to emerge for banks. This will require the CBA to continuously upgrade its supervisory capacity, strengthen prudential requirements, and forcefully penalize non-complying banks. Only with continued vigilance can the CBA ensure continuing improvements in the health of the banking system in Armenia.

Armenia: Summary of Tax System (as of September 1<sup>st</sup>, 1999)

(All values in drams)

	Tax	Nature of Tax	Deductions and Exemptions	Rates
<b>1. Taxes on consumption and production</b>				
1.1	VALUE-ADDED TAX	<p>VAT shall be charged on any supply of goods and services or import of goods and services as well as on own-consumption of a taxable person. The tax base is price plus excise taxes on domestic goods and customs value plus excise taxes for imported goods.</p> <p>Input tax credit: Credit is allowed for VAT accrued on raw materials, fuel and services involved in production and sales as well as on capital assets. This credit is allowed on immediate basis if the value of the asset is no more than 10 million drams or over a six-month period in equal installments if the value of the asset is over 10 million drams.</p> <p>In principle, goods from other countries are taxed and exports are zero-rated (destination basis).</p> <p>The annual threshold for VAT is equal to AMD 3 mln.</p>	<p>Exemptions: sales of stamps; housing rental by individuals; urban electrical transport; rent of leased enterprises organized on the basis of state enterprises; circulation of currency and securities; services for which state duties are charged; goods and services imported as humanitarian aid and for charitable purposes; agricultural products supplied by the producer; scientific services, children s schoolbooks; government sale of confiscated goods, medical services.</p>	<p>20 percent standard rate.</p> <p>Zero-rated: exports, nonresident diplomatic purchases.</p>
1.2	EXCISES	<p>All excise rates are ad valorem. Domestic production as well as imports are quoted on a tax exclusive bases. The tax is payable by producers or importers of excisable goods.</p> <p>A minimum excise tax is set for some imported goods: the tax amount per liter of goods under code number 2203 shall not be less than dram equivalent of \$0.35; per liter of alcohol under the code numbers 2204, 2205, and 2206 - dram equivalent of \$1.5; per liter of alcohol under the code number 2207 - \$1.2; per liter of alcohol under the code number 2208 - \$3.75.</p> <p>Specific taxes apply for cigarettes and gasoline.</p>	<p>Exemptions: Sale of goods for export; Goods imported by officials of foreign embassies, and consulates for official use; goods imported by, diplomatic personnel, administrative/technical staff of diplomatic representative offices, consul, consulate personnel and members of their families for personal use; Goods imported by individuals, if less than the taxed quantity, as defined by customs legislation; Goods on transit through Armenia; Goods imported to Armenia within the framework of humanitarian assistance, and relief programs; Goods imported to Armenia temporarily, to be kept under the Custom House control, as in accordance with the legislation; Goods imported to Armenia, which were previously temporarily exported.</p>	<p>fish caviar ... 200 beer ... 50 wine ... 50 alcohol ... 125 cigarette products ... 100 petroleum ... 35 diesel fuel ... 10 clothes from natural leather ... 25 natural fur &amp; items made of it ..... jewelry ... 15 crystal and porcelain items ... 25</p>
1.3	SPECIFIC (PRESUMPTIVE) TAXES ON CIGARETTES AND PETROLEUM	<p>A specific tax for cigarettes (including VAT, excise and customs duties for imports, and VAT and excise for domestic production) and for gasoline (including excise and VAT) is effective.</p>		<p>The rate for filtered cigarettes is (per 1,000 items) US\$ 15 for imported and US\$12 and AMD 1,100 for domestic filtered and filter less, respectively</p> <p>The rate for gasoline is US\$ 120 per ton.</p>

1.4	ENVIRONMENTAL TAXES	Specific taxes and ad valorem taxes are imposed on economic activities and materials which either exploit or pollute natural resources.		Rates vary depending on activity and substance. A hazardous material tax is imposed on many oil based and other products. For gasoline this tax amounts to 44 percent of import value.
<b>2. Taxes on income and wealth</b>				
2.1	ENTERPRISE PROFIT TAX	<p>Resident legal entities are taxable on their taxable profits from all sources world-wide. Foreign legal entities operating through representations in Armenia are taxable on the taxable profits derived by the representations in Armenia as well as on income independently received from Armenian sources.</p> <p>The taxable profit is positive difference between gross income of taxpayer and deductions, envisaged by the Law.</p>	<p>Deductions: income related expenses - particularly the following shall be considered as expenses: material expenses; labor reimbursement; pension, unemployment, social security payments; depreciation of fixed assets; insurance payments; taxes, duties, other obligatory payments which are not subject to compensation (or netting); interest on loans, or other borrowings; fee for guarantees, letters of guarantee, LCs, and other banking services; advertisement expenses; representative expenses; business trip expenses; court expenses; reimbursement against incurred losses; fines and penalties, unless envisaged otherwise in this Law; expenses on staff recruitment; auditing, legal, other information and administrative expenses; factoring, trust expenses; negative balance of foreign exchange revaluation; expenses within the previous three years found to be shown in a lesser amount costs of production, depreciation of fixed assets; the amount of any losses that are the result of selling or exchanging property.</p> <p>Unlimited loss carry forward is allowed.</p> <p>If the share of a foreign investor in the equity capital of a resident (except banks) is at least dram 500 million after January 1, 1998, then the amount of the tax of the resident is reduced by 100 or 50 percent for the next up to ten year depending on the time the investment is made.</p>	15 percent, if the annual taxable profit is less than AMD 7 mln, and AMD 1.05 mln plus 25 percent of the amount exceeding AMD 7 mln.

2.2	<p>PERSONAL INCOME TAX</p>	<p>Resident are liable for income tax on their world-wide income. Non-residents are taxable on the income derived from a limited number of Armenian sources.</p> <p>The following monetary (in drams officially in circulation in the Republic of Armenia, as well as in foreign currency) and in-kind income received by individuals shall be subject to taxation: income derived from implementation of labor and civil and legal agreements; author's royalties; income derived from business activities; income derived from leasing of property; income derived from share capital participation, securities and deposit payments, as well as other income. In-kind (non-monetary) income shall be taxed in compliance with market prices.</p> <p>Tax on Armenian-source income is normally withheld at source. Income from an overseas source is assessed on an annual basis.</p>	<p>Nontaxable income: state benefits paid according to legislation of RA except allowances for temporary work disability and for care of a sick family member; unemployment benefits, pregnancy and maternity allowances are also classified as not-taxable income; compensation paid for injuries and health problems or death occurred during performance of work obligation as described in legislation of RA; compensation paid according to legislation of RA for job loss; all types of pensions paid according to pension legislation of RA as well as additional pensions paid for voluntary pension insurance; compensation paid only once to families of disabled or killed serviceman according to legislation of RA; death allowances paid only once; payment to physical entities for donated blood, breast milk, etc.</p> <p>Deductions: equity interest (from share, stock); dividends; compensation paid within the norms specified in the legislation of RA except payment for unused vacations in case of quitting work; property and cash inherited from or gifted by physical persons; contribution (relief) to physical persons in cash and kinds from NGOs including benevolent, religious and non-profit organization as well as from trade unions that have state registry according to legislation of RA and are registered at State Tax Inspectorate of RA; amounts of relief paid according to decisions of the government of RA, regional and local governments as well as paid by foreign countries and intergovernmental international organizations; amounts that are described by law as grants; winnings, bonuses not exceeding ten thousand dram each from lottery and other prize games organized according to conditions and rules specified in legislation of RA; value of prizes (in cash and kind) not exceeding ten thousand drams received at competitions and contests; amount of proceeds from selling personal property by physical persons with the exception of selling the property not for entrepreneurial purposes; the amount of positive nominal value and purchasing price of privatization certificates bought by physical entities and invested according to procedure as described in law; scholarship and stipends to graduate students, students of higher educational establishments, vocational and technical schools.</p>	<p>The rates as of April 1, 1999 are the following</p> <p>Annual taxable income less than dram 204,000 – 0 percent;</p> <p>Annual taxable income form 204,000 to 324,000 15 percent of the amount above dram 204,000;</p> <p>Annual taxable income form 324,000 to 524,000 dram 18,000 plus 25 percent of the amount above dram 324,000;</p> <p>Annual taxable income above 524,000 dram 68,000 plus 30 percent of the amount above dram 524,000.</p>
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2.3	MANDATORY SOCIAL SECURITY CONTRIBUTIONS	Withholding is required for monthly contributions to pensions, unemployment, social security and medical funds.		<p>For employers – 28 percent of paid wage, but not less than 2,500 dram and not more than 20,000 dram per employee.</p> <p>For employees – 3 percent of wage.</p>
2.4	LAND TAX	For agricultural land, the tax is based on net income, determined by the land cadastral valuation. For other land, the tax is based on the land cadastral value.	<p>Exemptions: Budget institutions and organizations; state reserves, national parks, botanic gardens, and lands historic-cultural importance, farmers and collective economies formed during land reform and privatization for the two years following the month of land property right; state land of general use, educational-industrial and experimental plots attached to colleges and schools.</p> <p>A 50 percent exemption applies to certain lands used for scientific, educational, and agricultural and forest cultivation programs; and citizens exempt from income tax (currently there is no such exemption).</p>	<p>Land of agricultural use: 15 percent</p> <p>Non-agricultural land:</p> <p>Land of industrial importance, transportation, communication, broadcasting, television, defense, gas lines, water funds: within settled area – 1 percent, and outside of settled area – 0.5 percent.</p> <p>land for forest stocks 1 percent</p> <p>Other land 1 percent</p>



2.5	PROPERTY TAX	<p>The tax is paid for buildings and transportation means.</p> <p>The tax base for buildings is the value as assessed according to the law, and the tax base for transportation means is the engine power (horse power, HP, or kilowatt)</p>	<p>Exemptions:</p> <p>a) the property of budget organizations and institutions;</p> <p>b) communication roads (including motor ways), communication and power transmission lines, as well as property used for the purpose of their direct operation.</p> <p>c) water reservoirs.</p> <p>Deductions: for vehicles manufactured more than 3 years before, the tax amount is reduced by 10 percent for each year above 3, but not more than 50 percent of the total tax amount.</p>	<p>Residential buildings: 0-0.8 percent according to scale; other buildings: 0.6 percent</p> <p>Air transport: AMD 200 per HP, or AMD 272 per 1 kilowatt of the engine; water transport: AMD 150 per HP, or AMD 204 per 1 kilowatt; wheeled or caterpillar vehicle: AMD 30 per HP, or AMD 40.8 per 1 kilowatt.</p> <p>Trucks and buses: AMD 100 per HP if engine capacity is less than 200 HP, and AMD 200 per HP if engine capacity is over 200 HP</p> <p>Passenger vehicles: AMD 200 per HP, if the capacity less than 120 HP, AMD 400 per HP if the capacity is 120-250 HP, and AMD 500 per HP if the engine capacity is over 250 HP.</p>
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**3. TAXES ON INTERNATIONAL TRADE**

3.	CUSTOMS DUTIES	Customs duties are levied on all physical and legal entities importing in and exporting from Armenia.	<p>Exemptions from customs duties are as follows: transit of goods through the territory of Armenia. temporary imports of goods on the territory of Armenia.</p> <p>A deduction for individuals applies for goods worth no more than US\$500 and weighing not more than 50 kg.</p> <p>The individuals who arrive in the Republic of Armenia with the intention of permanent living may import into the Republic of Armenia their belongings without payment of customs duties.</p> <p>The citizens of the Republic of Armenia may import into the customs territory of the Republic of Armenia their inheritance property (received abroad) without payment of customs duties after submission to the customs bodies of the Republic of Armenia the corresponding documents of inheritance.</p>	<p>Exports are zero-rated.</p> <p>Imports of almost all finished products (consumption goods) is taxed at 10 percent, and all other goods (including raw materials, machinery, equipment, pharmaceuticals) are generally 0 rated.</p>
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**4. PRESUMPTIVE (SPECIFIC) TAXES FOR SOME BUSINESSES**

4.	PRESUMPTIVE PAYMENTS	<p>The law has established presumptive taxes replacing VAT and/or profit (income) tax for the following activities:</p> <ul style="list-style-type: none"> <li>a) trading activity conducted in shops, and booths with total area at least 30 square meters;</li> <li>b) the activity on arranging trading place;</li> <li>c) transportation activities;</li> <li>d) haircutting services;</li> <li>e) the activities of photo laboratories;</li> <li>f) the activities of gas stations;</li> <li>g) retail sale of petrol and diesel;</li> <li>h) parking places</li> <li>i) commercial fishing</li> <li>j) exchange offices;</li> <li>k) foreign exchange dealers;</li> <li>l) casinos;</li> <li>m) computer games;</li> <li>n) video-recorders, and films.</li> </ul>		<p>Rates vary according to the activities and basic parameters.</p>
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Table 2. Armenia: Real Gross Domestic Product Growth, 1994-99

	1994	1995	1996	1997	1998	1998 1/		1999 1/	
						Q1	Q2	Q1	Q2
(At 1996 prices, millions of dram)									
Gross domestic product	584,261	624,575	661,209	683,168	732,080	92,662	146,497	96,925	153,969
Industry	149,335	153,217	154,903	156,916	152,836	27,925	42,880	26,780	46,010
Agriculture	216,893	225,569	230,069	219,716	247,454	17,386	44,943	17,872	43,729
Construction	41,266	38,873	48,677	50,577	56,140	3,628	10,041	5,902	13,887
Transport and communication 2/	31,362	34,373	40,260	43,964	47,481	6,281	5,128	6,412	4,964
Wholesale and retail trade	32,612	56,419	62,955	66,103	70,135	13,552	8,868	15,273	10,491
Other	92,648	90,379	87,881	90,665	96,372	12,888	21,323	13,241	21,720
Taxes	20,146	25,746	36,465	55,228	61,662	11,004	13,314	11,444	13,168
(In percent change over same period previous year)									
Gross domestic product	5.4	6.9	5.9	3.3	7.2	6.4	6.9	4.6	5.1
Industry	9.6	2.6	1.1	1.3	-2.6	4.3	2.5	-4.1	7.3
Agriculture	3.1	4.0	2.0	-4.5	12.6	-4.1	-0.4	2.8	-2.7
Construction	5.4	-5.8	25.2	3.9	11.0	-21.0	34.9	62.7	38.3
Transport and communication 2/	-4.2	9.6	17.1	9.2	8.0	10.5	11.8	2.1	-3.2
Wholesale and retail trade	60.2	73.0	12.5	5.0	6.1	2.1	18.9	12.7	18.3
Other services 3/	-2.2	-2.2	14.6	3.2	6.3	8.5	16.5	2.7	1.9
Taxes	-2.2	-72.2	14.6	51.5	11.6	62.6	8.6	4.0	-1.1

Source: Ministry of Statistics.

1/ Seasonally unadjusted.

2/ Includes passenger transport only during 1994-95.

3/ Includes the government sector.

Table 3. Armenia Quarterly Real GDP 1997-99

	1997					1998					1999	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2
(in 1996 average price, millions of Drams)												
GDP	87,089	137,019	226,533	232,528	683,168	92,662	146,497	242,911	250,009	732,080	96,925	153,969
Industry	26,773	41,835	42,558	45,750	156,916	27,925	42,880	40,934	41,097	152,836	26,780	46,010
Agriculture	18,121	45,126	93,539	62,931	219,716	17,386	44,943	115,021	70,105	247,454	17,872	43,729
Construction	4,592	7,442	14,340	24,202	50,577	3,628	10,041	13,963	28,508	56,140	5,902	13,887
Transport/communication	5,684	4,587	13,818	19,876	43,964	6,281	5,128	14,269	21,803	47,481	6,412	4,964
Trade/services	13,273	7,457	16,554	28,818	66,103	13,552	8,868	16,758	30,957	70,135	15,273	10,491
Othersectors	11,881	18,310	31,509	28,966	90,665	12,888	21,323	26,607	35,555	96,372	13,241	21,720
Taxes	6,766	12,262	14,216	21,985	55,228	11,004	13,314	15,359	21,984	61,662	11,444	13,168
(percent change)												
GDP	3.0	2.1	3.4	4.1	3.3	6.4	6.9	7.2	7.5	7.2	4.6	5.1
Industry	-2.5	-2.6	6.3	3.0	1.3	4.3	2.5	-3.8	-10.2	-2.6	-4.1	7.3
Agriculture	0.7	-2.5	-6.9	-3.6	-4.5	-4.1	-0.4	23.0	11.4	12.6	2.8	-2.7
Construction	29.4	-11.7	19.6	-2.1	3.9	-21.0	34.9	-2.6	17.8	11.0	62.7	38.3
Transport/communication	3.1	4.8	-1.3	21.4	9.2	10.5	11.8	3.3	9.7	8.0	2.1	-3.2
Trade/services	3.2	4.0	6.8	5.0	5.0	2.1	18.9	1.2	7.4	6.1	12.7	18.3
Othersectors	7.5	6.9	5.9	-3.3	3.2	8.5	16.5	-15.6	22.7	6.3	2.7	1.9
Taxes	9.8	55.1	95.0	45.5	51.5	62.6	8.6	8.0	0.0	11.6	4.0	-1.1

Source: Ministry of Statistics.

Table 4. Armenia: Gross Domestic Product, 1994-99

	1994	1995	1996	1997	1998	1998 <sup>1/</sup>		1999 <sup>1/</sup>	
						Q1	Q2	Q1	Q2
(In current prices, millions of dram)									
Gross domestic product	187,064	522,285	660,311	798,555	951,901	117,681	180,103	122,651	140,801
Industry	54,495	126,731	156,980	192,056	207,452	38,233	57,986	37,876	46,010
Agriculture	81,304	202,135	217,594	244,287	295,628	19,943	60,776	17,528	43,729
Construction	12,508	44,512	63,124	64,242	80,936	4,833	13,578	8,508	13,887
Transport and communication <sup>2/</sup>	7,838	22,646	31,023	43,330	48,528	6,412	6,935	7,136	4,964
Trade	8,423	49,781	63,262	72,992	82,401	16,413	11,992	17,018	10,491
Other services <sup>3/</sup>	22,496	76,480	128,328	181,648	236,957	31,847	28,835	34,585	21,720
(Share in total; in percent)									
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industry	29.1	24.3	23.8	24.1	21.8	32.5	49.3	30.9	39.1
Agriculture	43.5	38.7	33.0	30.6	31.1	16.9	51.6	14.3	37.2
Construction	6.7	8.5	9.6	8.0	8.5	4.1	11.5	6.9	11.8
Transport and communication <sup>2/</sup>	4.2	4.3	4.7	5.4	5.1	5.4	5.9	5.8	4.2
Trade	4.5	9.5	9.6	9.1	8.7	13.9	10.2	13.9	8.9
Other services <sup>3/</sup>	12.0	14.6	19.4	22.7	24.9	27.1	24.5	28.2	18.5

Source: Ministry of Statistics.

1/ Seasonally unadjusted. Q2 data are derived from figures in constant 1996 prices and average CPI inflation.

2/ Includes passenger transport only in 1994-95.

3/ Includes government.

Table 5. Armenia: Production of Selected Agricultural Products, 1994-99  
(In thousand tons, unless stated otherwise)

	1994	1995	1996		1997		1998		1998 Q1	1999 Q1
			Hectares	Output	Hectares	Output	Hectares	Output	Output	Output
Grains	238.1	262.7	183,869.0	328.4	199,119.0	258.3	198,744.0	325.7	31.3	32.3
<i>Of which Wheat:</i>	152.9	153.8	92,840.0	201.4	113,554.0	178.7	124,307.0	239.1	29.8	30.0
Potatoes	417.2	427.7	32,645.0	423.2	32,875.0	359.8	32,736.0	440.0	20.6	22.9
Vegetables	424.3	450.9	21,037.0	444.5	21,721.0	369.0	19,290.0	395.2	45.8	46.9
Fruit	127.5	146.1	34,139.0	158.2	24,941.0	108.8	21,604.0	126.7	15.2	9.0
Grapes	212.4	154.9	21,850.0	158.5	17,758.0	107.7	15,725.0	106.0	...	...
Beef and poultry	79.0	82.4	...	82.6	...	...	...	86.0	39.0	35.1
Milk	415.2	428.3	...	431.3	...	435.3	...	457.5	210.5	229.5
Eggs (millions)	191.3	197.6	...	192.2	...	190.8	...	219.4	106.5	153.5
Wool	1.7	1.5	...	1.4	...	1.3	...	1.3	0.5	0.3
Tobacco	0.5	0.2	19.0	0.0	35.0	0.0	117.0	0.2	...	...

Source: Ministry of Statistics.

Table 6. Armenia: Production of Selected Industrial Commodities, 1994-99

	1994	1995	1996	1997	1998	1998		1999	
						Q1	Q2	Q1	Q2
Electric energy (in millions of kWh)	5,673	5,576	6,229	6,030	5,684	1,813	1,171	1,618	1,359
Cable (in millions of kilometers)	185	209	481	705	1,189	16	797	...	99
Metal cutting equipment (number)	739	449	459	487	355	73	101	33	52
Car tires (in thousands)	120	93	73	0	17	...	...	5	...
Cement (in thousands)	122	228	282	293	314	66	90	55	98
Construction materials (in thousands of cubic meters)	584	86	...	...	...	3	27	5	21
Carpets (in thousands of square meters)	37	29	23	14	14	2	4	2	8
Wine (in thousands of litres)	2,271	939	480	337	149	26	29	54	49
Cognac (in thousands of litres)	513	325	231	392	253	90	109	20	16
(Percent change over same period previous year)									
Electric energy (in millions of kWh)	...	-2	12	-3	-6	7	1	-11	16
Cable (in millions of kilometers)	...	13	130	47	69	...	523	...	-88
Metal cutting equipment (number)	...	-39	2	6	-27	103	9	-55	-49
Car tires (in thousands)	...	-23	-20	-100	...	...	...	...	...
Cement (in thousands)	...	87	24	4	7	284	8	-17	9
Construction materials (in thousands of cubic meters)	...	-85	...	...	...	-50	8	...	-20
Carpets (in thousands of square meters)	...	-22	-21	-40	1	-8	17	-9	134
Wine (in thousands of litres)	...	-55	-29	-30	-56	-48	-70	108	68
Cognac (in thousands of litres)	...	-46	-17	70	-36	4	80	-78	-86

Sources: Ministry of Statistics and Ministry of Energy.

Table 7. Armenia: Consumer Prices, 1994-99

		CPI Jan-94=100	Percent change over previous month	Percent change over 12-months	Cumulative during the year	Average inflation during the year ending	Quarterly inflation	
							Percent change over previous quarter	Percent change over same quarter previous year
1994	January	100.0	82.5	14,943.5	82.5			
	February	118.5	18.5	12,484.5	116.3			
	March	171.2	44.5	15,491.3	212.5	14,309.7	351.7	14,309.7
	April	289.4	69.0	23,064.6	428.1			
	May	448.5	55.0	28,806.3	718.6			
	June	489.4	9.1	24,396.3	793.1	21,450.6	214.9	25,475.6
	July	480.6	-1.8	21,498.6	777.0			
	August	498.3	3.7	17,877.0	809.5			
	September	529.7	6.3	16,588.6	866.8	19,840.9	22.9	18,362.6
	October	589.6	11.3	11,840.6	976.0			
	November	676.3	14.7	2,446.5	1,134.2			
	December	1,087.4	60.8	1,884.5	1,884.5	5,273.4	56.0	2,627.2
1995	January	1,129.8	3.9	1,029.8	3.9			
	February	1,138.3	0.8	860.4	4.7			
	March	1,152.0	1.2	572.7	5.9	777.5	45.3	777.5
	April	1,233.8	7.1	326.3	13.5			
	May	1,330.0	7.8	196.5	22.3			
	June	1,338.0	0.6	173.4	23.0	352.8	14.1	217.9
	July	1,276.4	-4.6	165.6	17.4			
	August	1,249.6	-2.1	150.8	14.9			
	September	1,248.4	-0.1	135.7	14.8	255.0	-3.3	150.2
	October	1,298.3	4.0	120.2	19.4			
	November	1,333.4	2.7	97.2	22.6			
	December	1,434.7	7.6	31.9	31.9	176.7	7.7	72.8
1996	January	1,486.3	3.6	31.6	3.6			
	February	1,536.9	3.4	35.0	7.1			
	March	1,539.9	0.2	33.7	7.3	33.4	12.2	33.4
	April	1,533.8	-0.4	24.3	6.9			
	May	1,534.4	0.0	15.4	7.0			
	June	1,514.5	-1.3	13.2	5.6	24.9	0.4	17.5
	July	1,464.5	-3.3	14.7	2.1			
	August	1,468.9	0.3	17.5	2.4			
	September	1,452.7	-1.1	16.4	1.3	22.0	-4.3	16.2
	October	1,453.0	0.0	11.9	1.3			
	November	1,487.9	2.4	11.6	3.7			
	December	1,517.6	2.0	5.8	5.8	18.7	1.7	9.6
1997	January	1,564.7	3.1	5.3	3.1			
	February	1,589.7	1.6	3.4	4.7			
	March	1,602.4	0.8	4.1	5.6	4.2	6.7	4.2
	April	1,628.1	1.6	6.1	7.3			
	May	1,681.8	3.3	9.6	10.8			
	June	1,747.4	3.9	15.4	15.1	7.3	6.3	10.4
	July	1,740.4	-0.4	18.8	14.7			
	August	1,723.0	-1.0	17.3	13.5			
	September	1,781.6	3.4	22.6	17.4	11.3	3.7	19.6
	October	1,783.4	0.1	22.7	17.5			
	November	1,813.7	1.7	21.9	19.5			
	December	1,848.1	1.9	21.8	21.8	14.0	3.8	22.1
1998	January	1,923.9	4.1	23.0	4.1			
	February	1,991.2	3.5	25.3	7.7			
	March	1,997.2	0.3	24.6	8.1	24.3	8.6	24.3
	April	1,961.3	-1.8	20.5	6.1			
	May	1,924.0	-1.9	14.4	4.1			
	June	1,864.4	-3.1	6.7	0.9	18.8	-2.8	13.7
	July	1,784.2	-4.3	2.5	-3.5			
	August	1,746.0	-2.1	1.3	-5.5			
	September	1,743.6	-0.1	-2.1	-5.7	12.5	-8.3	0.5
	October	1,743.7	0.0	-2.2	-5.7			
	November	1,774.8	1.8	-2.1	-4.0			
	December	1,825.0	2.8	-1.3	-1.3	8.7	1.3	-1.9
1999	January	1,894.5	4.0	-1.3	4.0			
	February	1,896.5	0.0	-4.7	4.0			
	March	1,886.3	-0.6	-5.5	3.4	-3.9	6.3	-3.9
	April	1,893.9	0.4	-3.4	3.8			
	May	1,902.6	0.5	-1.1	4.3			
	June	1,902.5	0.0	2.1	4.3	-2.4	0.3	-0.9
	July	1,843.9	-3.1	3.3	1.0			
	August	1,826.9	-0.9	4.7	0.1			

Source: Ministry of Statistics.



Table 8. Armenia: Selected Energy Prices, 1994-99 1/  
(In drams per unit)

Unit	1994				1995				1996				1997				1998				1999			
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1	
Electricity																								
Retail	Kilowatt hour	0.2	1.0	1.0	1.3	10.0	10.0	10.0	12.0	12.0	14.0	14.0	14.0	16.3	17.1	16.9	19.0	20.1	20.1	20.1	20.1	25.0	25.0	25.0
Natural gas																								
Retail	cubic meter	...	...	...	...	...	...	...	...	28.0	30.0	...	30.0	32.0	34.0	37.2	32.0	51.0	51.0	51.0	51.0	51.0	51.0	51.0
Petroleum products																								
Gasoline (A-76), retail	liter	80.5	160.9	194.8	163.6	195.6	141.8	159.3	147.3	139.3	128.0	147.7	148.7	147.7	145.7	161.7	174.3	166.3	160.0	172.0	174.0	180.0	180.0	181.0
Diesel fuel	liter	...	...	110.3	108.8	126.7	106.7	106.9	110.7	112.3	105.0	117.7	125.3	130.7	137.7	142.0	154.0	157.7	153.0	148.0	127.0	127.0	125.0	125.0
Liquid Gas																								
Retail	kg	330.0	400.0	401.0	460.0	587.0	405.0	408.0	371.0	375.0	328.0	326.0	320.0	498.0	393.5	350.2	358.7	346.7	337.0	339.6	339.0	343.0	344.0	342.0

Sources: Ministry of Energy and Ministry of Statistics.

1/ Prices include VAT and excise taxes, if applicable.

Table 9. Armenia: Regulated Prices for Main Commodities and Services, 1994-99 1/  
(In drams)

Item	Unit	1994	1995	1996	1997	1998	1999	1999	1999
		Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	May	Jun.
Transport (bus)	1 trip	5.0	25.0	47.5	47.5	51.0	51.0	51.0	49.0
Electricity 2/	1 kWh	10.0	12.0	14.0	20.4	20.4	25.0	25.0	25.0
Telephone	monthly	10.4	101.0	101.0	600.0	600.0	918.3	911.6	923.4
Rent	monthly/sq. meter	0.5	8.0	10.4	21.0	21.8	21.8	21.8	21.8
Water	1 cubic meter	0.7	14.7	14.7	28.8	46.0	46.0	46.0	46.0
Sewage	monthly	...	4.2	4.2	8.5	10.0	10.0	10.0	10.0
Garbage	monthly	12.0	60.0	60.0	60.0	100.0	100.0	100.0	100.0

Source: Ministry of Statistics.

1/ Data for Yerevan only.

2/ Tariff for households.

Table 10. Armenia: Labor Market Indicators, 1994-99 1/

	1994	1995	1996	1997	1998	1998		1999	
						Q1	Q2	Q1	Q2
Population (in millions)	3.8	3.8	3.8	3.8	3.8	3.8	3.8	...	...
Employment (in thousands)	1,487.6	1,476.4	1,435.6	1,370.6	1,352.5	1,312.7	...	1,335.0	...
<i>Of which:</i>									
Industry	355.2	302.9	255.0	228.9	225.4	...	...	...	...
Agriculture and forestry	504.3	551.9	586.0	566.6	558.6	...	...	...	...
Transport and communication	54.9	53.4	48.0	49.1	48.8	...	...	...	...
Construction	96.8	76.0	68.0	59.7	59.3	...	...	...	...
Trade and public catering	63.7	100.0	110.2	115.6	113.7	...	...	...	...
Other services	412.7	392.2	368.4	350.7	346.7	...	...	...	...
Official number of unemployed persons (in thousands) 2/	91.8	131.7	159.3	174.4	133.8	133.3	...	144.7	...
Official unemployment rate (in percent) 3/	6.6	6.7	9.3	10.8	9.3	11.2	...	9.8	...
Official number of persons on forced leave (in thousands)	...	...	...	...	...	...	...	...	...
Official number of vacancies (in thousands) 2/	0.5	1.1	0.5	0.1	0.7	0.6	...	1.0	...
Minimum monthly wage in drams	185.1	487.9	756.7	1,000.0	1,000.0	1,000.0	1,000.0	5,000.0	5,000.0
Real minimum monthly wage in drams 4/	154.6	115.9	152.2	176.8	162.7	152.9	157.3	796.0	792.8
Average monthly wage in drams	2,023.8	6,418.7	9,428.6	11,689.4	15,547.3	13,054.0	14,978.7	16,564.7	18,181.7
Real average monthly wage 4/	107.0	130.0	162.0	175.1	217.0	170.4	201.4	225.3	246.3
Average monthly dollar wage	6.4	15.8	22.8	23.8	30.8	26.1	29.8	30.8	33.7
Employment in agricultural households (in thousands)	461.7	534.7	572.0	555.3	556.4	532.9	...	533.0	...

Source: Ministry of Statistics.

1/ Data cover only the public sector, including budgetary organizations and state-owned enterprises. Wage data are annual average.

2/ At the end of period.

3/ Using the average annual officially registered number of unemployed.

4/ Annual average, Jan 1995 = 100. Figures were calculated by the staff through deflating nominal wage with CPI.

Table 11. Armenia: Average Monthly Wages in the State Sector, 1994-99 1/

	1994	1995	1996	1997	1998	1998		1999	
						Q1	Q2	Q1	Q2
	(in drams)								
State Sector Average	2,024	6,419	9,429	11,689	15,547	13,054	14,979	16,565	18,182
Material sphere	2,656	9,090	12,948	16,539	22,909	19,084	22,490	24,499	25,285
Non-material sphere	1,242	3,564	6,330	8,238	10,718	9,196	10,148	11,623	13,693
<i>Of which:</i>									
Budgetary sphere	1,015	3,342	5,606	7,270	9,986	8,227	9,473	10,206	12,561
By branch:									
Industry	3,486	8,149	13,505	16,372	21,748	18,223	21,468	22,523	22,587
Agriculture	1,194	6,170	8,874	8,257	10,718	8,823	11,567	10,174	15,033
Forestry	1,378	4,130	5,662	7,158	8,311	6,887	7,129	8,179	8,899
Transport	5,554	10,233	16,724	25,852	30,569	23,368	26,970	30,887	30,968
Communications	3,402	11,368	17,178	15,893	30,937	29,054	32,050	36,009	38,058
Construction	1,824	13,365	14,805	21,421	29,672	24,562	32,544	36,378	37,278
Trade	1,678	4,995	6,407	8,798	10,042	8,266	9,420	9,799	12,598
Information and computer service	1,319	5,102	9,195	10,189	15,788	11,233	12,542	15,489	19,469
Other material branches	1,051	3,775	7,466	11,771	14,790	12,410	14,683	16,326	18,127
Communal services	1,428	5,952	9,690	10,625	16,605	13,857	16,229	16,522	18,884
Health	1,039	3,818	5,551	6,929	8,999	7,773	8,111	9,964	11,010
General admin.& management	1,313	3,180	11,512	15,335	20,724	16,471	19,150	23,402	29,138
Education, culture and art	858	2,915	4,336	6,504	7,710	7,167	7,291	8,307	9,949
Science	1,799	5,582	8,855	9,924	13,043	10,634	12,105	13,383	16,368
Finance and insurance	10,109	24,344	24,970	25,611	42,138	31,399	19,150	50,942	54,577

Sources: Ministry of Statistics; and Fund staff estimates.

1/ Budgetary and non-budgetary state sectors only. Average wages of all sectors are simple average of monthly series provided by the authorities. Sectoral wages are adjusted based on the ratio between average wages from the monthly series and annual wages provided by the authorities.

Table 12. Armenia: Labor Force, Employment, and Unemployment, 1994-99

	1994	1995	1996	1997	1998	1998 Q1	1999 Q1
(In thousands)							
Potential labor force 1/	2,065	2,084	2,108	...	...	...	...
Total employed	1,488	1,476	1,436	1,371	1,351	1,313	1,335
Registered unemployed	106	106	148	166	139	166	145
Actual labor force 2/	1,594	1,582	1,584	1,538	1,492	1,479	1,480
Employment by sector	1,488	1,476	1,436	1,371	1,353	1,313	1,335
Statesector3/	794	736	647	515	441	...	...
Privatesector4/	694	741	789	856	912	...	...
Material sphere	1,077	1,071	1,056	1,031	1,017	...	...
Industry	355	303	255	229	225	...	...
Construction	97	76	68	60	59	...	...
Agriculture	502	550	584	564	556	...	...
Forestry	2	2	3	2	3	...	...
Transport and communications	30	27	24	49	49	...	...
Wholesale & retail trade, and catering	64	100	110	116	114	...	...
Other material sphere	27	14	13	11	11	...	...
Nonmaterial sphere	411	405	380	340	334	...	...
Education, culture, art	181	180	174	161	159	...	...
Science	25	23	15	16	16	...	...
Health, physical culture, and social welfare	84	86	82	81	79	...	...
Housing and personal services	58	52	51	47	47	...	...
General administration	30	29	29	30	29	...	...
Other nonmaterial sphere	33	35	30	5	5	...	...
(In percent)							
Memorandum items:							
Employed in state sector 5/	53.4	49.8	45.0	37.6	32.6	...	...
Employed in private sector 6/	46.6	50.2	55.0	62.4	67.4	...	...
Unemployment rate 7/	6.6	6.7	9.3	10.8	9.3	11.2	9.8
Unemployment rate 8/	5.3	5.1	7.0	...	...	...	...

Source: Ministry Statistics.

1/ Working-age population (16 years to 60 years of age) excluding students. The MOS is planning to undertake surveys similar to BLS in U.S.A. to calculate the actual labor force as those actively seeking work.

2/ Defined as total employed plus those registered as unemployed.

3/ State and state-owned enterprises.

4/ Non-state sector; includes farms and cooperative sector.

5/ Total employed in state sector as percent of total employment.

6/ Total employed in private sector as percent of total employment.

7/ Registered unemployed as percent of actual labor force.

8/ Registered unemployed as percent of potential labor force.

Table 13. Armenia: Employment in the Public Sector, 1994-99  
(Thousands of persons)

	1994	1995	1996	1997	1998	1998 Q1	1999 Q1
Total	1,487.6	1,476.4	1,435.6	1,370.6	1,350.9	1,312.7	1,335.0
Industry	355.2	302.9	255.0	228.9	225.4	...	...
Agriculture	502.1	549.6	583.5	566.6	558.6	...	...
Transportation and communications	54.9	53.4	48.0	49.1	48.8	...	...
Construction	96.8	76.0	68.0	59.7	59.3	...	...
Trade and public catering	63.7	100.0	110.2	115.6	113.7	...	...
Information and computer services	1.4	1.4	1.3	1.0	0.9	...	...
Housing and communal services	57.9	52.2	50.6	47.4	46.5	...	...
Health care, physical training, social security	83.6	85.5	81.7	80.7	79.3	...	...
Public education	147.4	147.5	142.1	134.3	131.8	...	...
Culture and art	34.0	32.7	31.7	27.0	26.8	...	...
Science and scientific support	27.0	22.8	14.7	16.0	16.2	...	...
Financing and insurance	7.9	8.5	6.4	4.7	4.6	...	...
Administrative agencies	30.4	29.3	28.6	29.5	28.7	...	...
Other sectors	25.3	14.6	13.8	10.1	10.3	...	...

Source: Ministry of Statistics.

Table 14. Armenia: Budgetary Sector Employment, 1994-99  
(At end of period; in thousands of employees)

	1994	1995	1996	1997	1998				1998	1999	
					Q1	Q2	Q3	Q4		Q1	Q2
Total	407.0	380.0	344.0	204.2	186.5	185.7	186.0	187.9	186.5	176.9	176.7
<i>Of which:</i>											
Education, culture, art	181.0	173.0	148.0	152.9	140.1	138.4	137.5	139.0	138.8	134.7	132.5
Science	23.0	15.0	16.7	8.1	7.4	7.6	7.9	8.3	7.8	7.2	8.0
Health, physical culture, social welfare	81.0	70.0	55.0	7.7	7.3	7.3	7.1	7.1	7.2	7.4	7.4
General administration	30.0	18.0	18.0	27.7	25.4	25.5	26.4	26.4	25.9	21.3	22.5
Other (including military)	92.0	104.0	109.0	7.8	6.3	6.9	7.1	7.1	6.8	6.3	6.3

Source: Ministry of Statistics.

Table 15. Armenia: Consolidated Government Fiscal Operations, 1994-99  
(In million of drams)

	1994	1995	1996	1997	1998 1/	1999	
						Q1 Prel.	Q2 Prel.
Total revenue and grants	51,756	103,834	116,606	158,426	197,674	43,514	48,218
Total revenue	29,610	84,803	106,935	146,808	188,617	41,652	46,689
Tax revenue	24,431	66,457	85,051	130,714	162,337	34,173	42,320
Value-added tax	5,076	17,019	21,520	39,323	59,844	11,959	16,238
Excises	836	2,388	11,323	18,679	19,397	4,183	3,585
Enterprise profits tax	10,712	23,868	16,761	16,070	12,294	3,707	5,003
Personal income tax	2,275	6,826	8,795	14,712	15,246	3,184	3,890
Land tax	405	1,721	1,940	2,676	1,393	206	254
Customs duties	789	2,707	5,875	10,597	10,625	1,781	2,027
Payroll taxes	2,836	10,680	14,717	22,050	25,699	5,314	4,995
Other taxes	1,502	900	3,022	4,955	12,114	2,028	3,483
Collection of taxes due in the past	6	0	-2,114	0	0	0	0
Presumptive income tax		139	490	623	3,915	1,190	2,470
Property tax		210	608	1,029	1,811	622	373
Nontax and capital revenue	5,179	18,346	21,884	16,094	26,280	7,478	4,369
Grants	22,147	19,031	9,671	11,618	9,058	1,862	1,528
Total expenditure	82,578	150,684	173,351	205,382	238,364	46,988	59,144
Current expenditure	64,134	112,725	129,740	172,086	183,100	35,244	42,601
Wages	3,443	13,528	18,983	24,774	29,632	6,044	7,237
Subsidies	24,032	4,916	815	4,451	1,059	315	424
Interest	3,642	16,112	17,273	21,702	17,808	4,706	4,922
domestic interest	2,156	11,774	12,129	15,828	10,677	3,097	3,079
external interest	1,486	4,339	5,144	5,874	7,131	1,609	1,843
Transfers	7,484	31,084	32,009	43,214	52,460	13,863	12,189
Pensions and social safety net	5,690	27,289	28,840	34,898	47,342	11,552	10,308
Payment of contingent liabilities	1,046	2,452	500	0	0	0	0
Other transfers	748	1,344	2,670	8,316	5,116	2,311	1,881
Goods and services	25,533	47,085	60,660	77,945	82,142	10,316	17,829
Health and education	3,931	12,866	9,725	11,954	19,416	3,060	3,619
Other	21,602	34,219	50,935	65,991	62,726	7,256	14,210
Capital expenditure and net lending	18,444	37,958	42,757	33,296	55,264	11,744	16,543
Capital expenditure	18,660	35,383	26,794	27,940	46,424	8,075	13,666
Foreign financed	8,734	27,735	19,183	23,261	21,036	3,807	6,570
Domestic financed	9,926	7,648	7,612	4,679	25,388	4,268	7,096
Net lending	531	2,575	15,962	5,356	8,840	3,669	2,877
Overall deficit (cash) (-) 2/	-30,822	-46,800	-61,578	-46,956	-40,690	-3,474	-10,927
Statistical discrepancy	11,900	-11,302	-65	870	-4,332	-2,575	873
Actual/identified financing	18,922	58,102	61,643	46,087	45,022	6,049	10,054
Domestic financing	6,685	3,024	18,540	-4,729	20,451	2,855	4,904
Banking system	5,649	2,776	14,535	-9,052	5,700	-3,995	758
Central Bank of Armenia	6,571	2,316	9,037	-10,912	-150	-713	-923
Rest of banking system	-922	460	5,498	1,860	5,850	-3,282	-1,681
Nonbank	1,036	248	4,005	4,323	14,751	6,850	4,146
Privatization receipts	84	48	212	45	21,277	3,360	6,296
Treasury bills	952	201	1,773	4,278	-6,009	3,598	-1,980
Promissory notes		0	2,020		-517	-108	-170
External financing	12,238	55,078	43,103	50,816	24,571	3,194	5,150

Sources: Ministry of Finance and Economy; and Central Bank of Armenia.

1/ Excludes netting out operations of dram 3.8 billion conducted in early 1998.



Table 16. Armenia: Consolidated Government Fiscal Operations, 1994-99  
(In percent of GDP; unless otherwise indicated)

	1994	1995	1996	1997	1998 1/	1999	
						Q1 Prel.	Q2 Prel.
Total revenue and grants	27.6	19.9	17.7	19.8	20.8	17.7	19.3
Total revenue	15.8	16.2	16.2	18.4	19.8	17.0	18.7
Tax revenue	13.0	12.7	12.9	16.4	17.1	13.9	17.0
Value-added tax	2.7	3.3	3.3	4.9	6.3	4.9	6.5
Excises	0.4	0.5	1.7	2.3	2.0	1.7	1.4
Enterprise profits tax	5.7	4.6	2.5	2.0	1.3	1.5	2.0
Personal income tax	1.2	1.3	1.3	1.8	1.6	1.3	1.6
Land tax	0.2	0.3	0.3	0.3	0.1	0.1	0.1
Customs duties	0.4	0.5	0.9	1.3	1.1	0.7	0.8
Payroll taxes	1.5	2.0	2.2	2.8	2.7	2.2	2.0
Other taxes	0.8	0.2	0.5	0.6	1.3	0.8	1.4
Collection of taxes due in the past	0.0	0.0	-0.3	0.1	0.0	0.0	0.0
Presumptive income tax	0.0	0.0	0.1	0.1	0.4	0.5	1.0
Property tax	0.0	0.0	0.1	0.1	0.2	0.3	0.1
Nontax and capital revenue	2.8	3.5	3.3	2.0	2.8	3.0	1.8
Grants	11.8	3.6	1.5	1.5	1.0	0.8	0.6
Total expenditure	44.1	28.9	26.3	25.7	25.0	19.1	23.7
Current expenditure	34.2	21.6	19.6	21.5	19.2	14.3	17.1
Wages	1.8	2.6	2.9	3.1	3.1	2.5	2.9
Subsidies	12.8	0.9	0.1	0.6	0.1	0.1	0.2
Interest	1.9	3.1	2.6	2.7	1.9	1.9	2.0
domestic interest	1.2	2.3	1.8	2.0	1.1	1.3	1.2
external interest	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Transfers	4.0	6.0	4.8	5.4	5.5	5.6	4.9
Pensions and social safety net	3.0	5.2	4.4	4.4	5.0	4.7	4.1
Payment of contingent liabilities	0.6	0.5	0.1	0.0	0.0	0.0	0.0
Other transfers	0.4	0.3	0.4	1.0	0.5	0.9	0.8
Goods and services	13.6	9.0	9.2	9.8	8.6	4.2	7.2
Health and education	2.1	2.5	1.5	1.5	2.0	1.2	1.5
Other	11.5	6.6	7.7	8.3	6.6	3.0	5.7
Capital expenditure and net lending	9.8	7.3	6.5	4.2	5.8	4.8	6.6
Capital expenditure	10.0	6.8	4.1	3.5	4.9	3.3	5.5
Foreign financed	4.7	5.3	2.9	2.9	2.2	1.5	2.6
Domestic financed	5.3	1.5	1.2	0.6	2.7	1.7	2.8
Net lending	0.3	0.5	2.4	0.7	0.9	1.5	1.2
Change in arrears	0.0	0.0	-0.7	0.0	0.0	0.0	0.0
Overall deficit (cash) (-) 2/	-16.4	-9.0	-9.3	-5.9	-4.3	-1.4	-4.4
Statistical discrepancy	6.3	-2.2	0.0	0.1	-0.5	-1.0	0.4
Actual/identified financing	10.1	11.1	9.3	5.8	4.7	2.5	4.0
Domestic financing	3.6	0.6	2.8	-0.6	2.1	1.2	2.0
Banking system	3.0	0.5	2.2	-1.1	0.6	-1.6	0.3
Central Bank of Armenia	3.5	0.4	1.4	-1.4	0.0	-0.3	-0.4
Rest of banking system	-0.5	0.1	0.8	0.2	0.6	-1.3	0.7
Nonbank	0.0	0.0	0.6	0.5	1.5	2.8	1.7
Privatization receipts	0.0	0.0	0.0	0.0	2.2	1.4	2.5
Treasury bills	0.0	0.0	0.3	0.5	-0.6	1.5	-0.8
Promissory notes	0.0	0.0	0.3	0.0	-0.1	0.0	0.0
External financing	6.5	10.5	6.5	6.4	2.6	1.3	2.1
Memorandum item:							
Nominal GDP (million drams)	187,452	522,284	660,311	798,555	951,901	245,732	249,201

Sources: Ministry of Finance and Economy; and Central Bank of Armenia.

1/ Excludes netting out operations of dram 3.8 billion conducted in early 1998.

Table 17. Armenia: State Budget, 1994-99  
(In millions of dram)

	1994	1995	1996	1997	1998	1999	
						Q1 Prel.	Q2 Prel.
Total revenue and grants	48,921	92,805	99,580	134,755	171,976	38,192	43,216
Total revenue	26,774	73,774	89,909	123,137	162,918	36,331	41,688
Tax revenue	21,595	55,777	70,334	108,664	136,638	28,859	37,325
Value-added tax	5,076	17,019	21,520	39,323	59,844	11,959	16,238
Excises	836	2,388	11,323	18,679	19,397	4,183	3,585
Enterprise profits tax	10,712	23,868	16,761	16,070	12,294	3,707	5,003
Personal income tax	2,275	6,826	8,795	14,712	15,246	3,184	3,890
Land tax	405	1,721	1,940	2,676	1,393	206	254
Customs duties	789	2,707	5,875	10,597	10,625	1,781	2,027
Other taxes	1,502	900	3,022	4,955	12,114	2,028	3,483
<i>Of which: Stamp duties</i>		878	2,767	2,892	11,361	1,788	3,234
Presumptive income tax		139	490	623	3,915	1,190	2,470
Property tax		210	608	1,029	1,811	622	373
Nontax revenue	5,179	17,997	19,575	14,473	26,280	7,471	4,362
Grants	22,147	19,031	9,671	11,618	9,058	1,862	1,528
Total expenditure	80,472	139,125	156,298	181,718	212,907	41,806	54,190
Current expenditure	62,028	101,167	112,686	148,421	157,643	30,063	37,647
Wages	3,443	13,528	18,983	24,774	29,632	6,044	7,237
Subsidies	24,032	4,916	815	4,451	1,059	315	424
Interest	3,642	16,112	17,273	21,702	17,808	4,706	4,922
domestic interest	2,156	11,774	12,129	15,828	10,677	3,097	3,079
external interest	1,486	4,339	5,144	5,874	7,131	1,609	1,843
Transfers	5,487	17,349	15,286	20,924	27,494	8,625	7,435
Child allowances	2,382	8,183	5,907	8,138	14,754	4,628	3,599
Pension contributions	802	3,608	4,923	4,020	4,145	917	1,070
Union contributions	53	178	281	1,630	0	0	0
Payment of contingent liabilities	1,046	2,452	500	0	0	0	0
Other transfers	694	2,478	3,674	6,686	5,116	2,311	1,881
Transfer to Pension Fund	510	450	0	450	3,479	770	885
Goods and Services	25,424	49,261	60,330	76,571	81,651	10,373	17,628
Capital expenditure and net lending	18,444	37,958	42,757	33,296	55,264	11,744	16,543
Capital expenditure	18,660	35,383	26,794	27,940	46,424	8,075	13,666
Foreign financed	8,734	27,735	19,183	23,261	21,036	3,807	6,570
Domestic financed	9,926	7,648	7,612	4,679	25,388	4,268	7,096
Net lending	531	2,575	15,962	5,356	8,840	3,669	2,877
Overall deficit (cash) (-)	-31,551	-57,594	-61,550	-46,963	-40,932	-3,614	-10,817
Unrecorded expenditures / statistical discrepant	11,900	...	-99	872	-4,332	-2,575	716
Actual/identified financing	19,651	57,571	61,649	46,092	45,264	6,189	10,101
Domestic financing	7,414	2,493	18,546	-4,724	20,693	2,995	4,951
Banking system	6,378	2,245	14,541	-9,047	5,942	-3,855	805
Central Bank of Armenia	7,147	1,853	9,066	-11,006	-65	-438	-950
Rest of banking system	-769	392	5,475	1,959	6,007	-3,417	1,755
Nonbank	1,036	248	4,005	4,323	14,751	6,850	4,146
<i>Of which: Privatization receipts</i>	84	48	212	45	21,277	2,659	5,071
Treasury bills	952	201	1,773	4,278	-6,009	3,598	-1,980
Promissory notes/other	0	0	2,020		-517	-108	-170
External financing	12,238	55,078	43,103	50,816	24,571	3,194	5,150

Sources: Armenian authorities; and Fund staff estimates.

Table 18. Armenia: State Budget, 1994-99  
(In percent of GDP; unless otherwise indicated)

	1994	1995	1996	1997	1998	1999	
						Q1 Prel.	Q2 Prel.
Total revenue and grants	26.2	17.8	15.1	16.9	18.1	15.5	17.3
Total revenue	14.3	14.1	13.6	15.4	17.1	14.8	16.7
Tax revenue	11.5	10.7	10.7	13.6	14.4	11.7	15.0
Value-added tax	2.7	3.3	3.3	4.9	6.3	4.9	6.5
Excises	0.4	0.5	1.7	2.3	2.0	1.7	1.4
Enterprise profits tax	5.7	4.6	2.5	2.0	1.3	1.5	2.0
Personal income tax	1.2	1.3	1.3	1.8	1.6	1.3	1.6
Land Tax	0.2	0.3	0.3	0.3	0.1	0.1	0.1
Customs duties	0.4	0.5	0.9	1.3	1.1	0.7	0.8
Other taxes	0.8	0.2	0.5	0.6	1.3	0.8	1.4
<i>Of which: Stamp duties</i>	0.0	0.2	0.4	0.4	1.2	0.7	1.3
Presumptive income tax	0.0	0.0	0.1	0.1	0.4	0.5	1.0
Property tax	0.0	0.0	0.1	0.1	0.2	0.3	0.1
Nontax revenue	2.8	3.4	3.0	1.8	2.8	3.0	1.8
Grants	11.8	3.6	1.5	1.5	1.0	0.8	0.6
Total expenditure	43.0	26.6	23.7	22.8	22.4	17.0	21.7
Current expenditure	33.2	19.4	17.1	18.6	16.6	12.2	15.1
Wages	1.8	2.6	2.9	3.1	3.1	2.5	2.9
Subsidies	12.8	0.9	0.1	0.6	0.1	0.1	0.2
Interest	1.9	3.1	2.6	2.7	1.9	1.9	2.0
domestic interest	1.2	2.3	1.8	2.0	1.1	1.3	1.2
external interest	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Transfers	2.9	3.3	2.3	2.6	2.9	3.5	3.0
Child allowances	1.3	1.6	0.9	1.0	1.5	1.9	1.4
Pension contributions	0.4	0.7	0.7	0.5	0.4	0.4	0.4
Union contributions	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Payment of contingent liabilities	0.6	0.5	0.1	0.0	0.0	0.0	0.0
Other transfers	0.4	0.5	0.6	0.8	0.5	0.9	0.8
Transfer to Pension Fund	0.3	0.1	0.0	0.1	0.4	0.3	0.4
Severance pay		0.0	0.0	0.0	0.0	0.0	0.0
Goods and services	13.6	9.4	9.1	9.6	8.6	4.2	7.1
Health	1.2	1.2	0.7	1.1	1.4	1.0	1.1
Education	0.9	1.2	0.8	0.4	0.7	0.2	0.4
Other	11.5	7.0	7.7	8.1	6.5	3.0	5.6
Capital expenditure and net lending	9.9	7.3	6.5	4.2	5.8	4.8	6.6
Foreign financed	4.7	5.3	2.9	2.9	2.2	1.5	2.6
Domestic financed	5.3	1.5	1.2	0.6	2.7	1.7	2.8
Net lending	0.3	0.5	2.4	0.7	0.9	1.5	1.2
Overall deficit (cash) (-)	-16.9	-11.0	-9.3	-5.9	-4.3	-1.5	-4.3
Statistical discrepancy	6.4	0.0	0.0	0.1	-0.5	-1.0	0.3
Actual/identified financing	10.5	11.0	9.3	5.8	4.8	2.5	4.1
Domestic financing	4.0	0.5	2.8	-0.6	2.2	1.2	2.0
Banking system	3.4	0.4	2.2	-1.1	0.6	-1.6	0.3
Central Bank of Armenia	3.8	0.4	1.4	-1.4	0.0	-0.2	-0.4
Rest of banking system	-0.4	0.1	0.8	0.2	0.6	-1.4	0.7
Nonbank	0.6	0.0	0.6	0.5	1.5	2.8	1.7
External financing	6.5	10.5	6.5	6.4	2.6	1.4	2.5
Memorandum item:							
GDP (in millions of Dram)	187,049	522,284	660,311	798,555	951,901	245,732	249,201

Sources: Armenian authorities; and Fund staff estimates.

Table 19. Armenia: Distribution of Current Expenditures in the Consolidated Government Budget, 1994-99  
(In percent of total current expenditures)

	1994	1995	1996	1997	1998	1999	
						Q1 Prel.	Q2 Prel.
Wages	5.4	12.0	14.6	14.4	16.2	17.1	17.0
Subsidies	37.5	4.4	0.6	2.6	0.6	0.9	1.0
Interest	5.7	14.3	13.3	12.6	9.7	13.4	11.6
Domestic interest	3.4	10.4	9.3	9.2	5.8	8.8	7.2
External interest	2.3	3.8	4.0	3.4	3.9	4.6	4.3
Transfers	11.7	27.6	24.7	25.1	25.4	39.3	28.6
Pensions and soc safety net	8.9	24.2	22.2	20.3	22.6	32.8	24.2
Payment of Contingent Liabilities	1.6	2.2	0.4	0.0	0.0	0.0	0.0
Other Transfers	1.2	1.2	2.1	4.8	2.8	6.6	4.4
Goods and Services	39.8	41.8	46.8	45.3	48.1	29.3	41.9
Health and Education	6.1	11.4	7.5	6.9	10.6	8.7	8.5
Other	33.7	30.4	39.3	38.3	37.5	20.6	33.4
Memorandum item:							
Current Expenditures in percent of total expenditures	77.7	74.8	74.8	83.8	76.8	75.0	72.0

Source: Ministry of Finance and Economy.

Table 20. Armenia: Composition of Tax Revenues in Consolidated Government Budget, 1994-99  
(In percent of total taxes)

	1994	1995	1996	1997	1998	1999	
						Q1 Prel.	Q2 Prel.
Tax revenue							
Value-added tax	20.8	25.6	25.3	30.1	36.9	35.0	38.4
Excises	3.4	3.6	13.3	14.3	11.9	12.2	8.5
Enterprise profits tax	43.8	35.9	19.7	12.3	7.6	10.8	11.8
Personal income tax	9.3	10.3	10.3	11.3	9.4	9.3	9.2
Land tax	1.7	2.6	2.3	2.0	0.9	0.6	0.6
Customs duties	3.2	4.1	6.9	8.1	6.5	5.2	4.8
Payroll taxes	11.6	16.1	17.3	16.9	15.8	15.6	11.8
Other taxes	6.1	1.4	3.6	3.8	7.5	5.9	8.2
Presumptive income tax		0.2	0.6	0.5	2.4	3.5	5.8
Property tax		0.3	0.7	0.8	1.1	1.8	0.9
Memorandum item:							
Tax revenue in percent of total revenue (including grants)	47.2	64.0	72.9	82.5	82.1	78.5	87.8

Source: Ministry of Finance and Economy.

Table 21. Armenia: Accounts of the Central Bank, 1994-99  
(End of period, millions of dram)

	1994	1995	1996				1997				1998				1999	
	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Stocks																
Net foreign assets (convertible currencies)	3,332	14,639	15,110	12,830	5,130	21,948	16,502	15,688	42,181	49,801	46,283	43,586	47,950	50,982	41,925	39,123
Net domestic assets	11,504	14,724	12,422	16,574	31,664	19,308	22,671	25,291	6,698	749	-1,115	3,345	2,530	2,857	3,636	4,566
General government	7,885	10,201	8,464	11,939	25,920	19,238	23,511	27,742	7,933	8,326	405	5,715	6,513	8,232	7,519	6,596
Republican government	8,463	10,316	8,513	12,023	26,088	19,382	23,603	27,800	8,154	8,376	504	5,849	6,590	8,311	7,873	6,923
Local government	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pension and employment fund	-578	-115	-49	-84	-168	-144	-92	-58	-221	-50	-99	-134	-77	-79	-354	-327
Banks	3,629	3,781	3,844	4,141	6,196	3,346	3,471	2,287	1,369	2,375	1,111	155	-248	2,738	240	1,638
Other items, net	-10	742	114	494	-452	-3,276	-4,311	-4,738	-2,604	-9,952	-2,631	-2,525	-3,735	-8,113	-4,123	-3,668
Reserve money	14,836	29,363	27,532	29,404	36,794	41,256	39,173	40,979	48,879	50,550	45,168	46,931	50,480	53,839	45,561	43,689
Currency outside Central Band of Armenia	11,054	25,743	22,799	25,519	32,760	37,144	33,787	35,533	38,097	42,215	37,638	35,660	39,656	45,345	34,690	36,280
Required reserves	1,510	2,392	2,625	2,978	3,796	3,559	2,915	2,986	5,723	8,061	7,169	10,402	10,126	7,912	10,087	6,634
Correspondent accounts	2,272	693	1,670	725	91	359	2,291	2,170	4,663							
Other accounts	0	535	438	182	147	194	180	290	396	274	361	869	698	582	784	775
Flows (with respect to end of previous period)																
Net foreign assets (convertible currencies)	3,175	11,306	472	-2,280	-7,700	16,818	-5,446	-814	26,493	7,620	-3,518	-2,697	4,364	3,032	-9,057	-2,802
Net domestic assets	10,072	3,221	-2,303	4,152	15,090	-12,356	3,363	2,620	-18,593	-5,949	-1,864	4,460	-815	327	779	930
General government	6,572	2,316	-1,737	3,475	13,981	-6,682	4,273	4,231	-19,809	393	-7,921	5,310	798	1,719	-713	-923
Republican government	6,572	2,316	-1,803	3,510	14,065	-6,706	4,221	4,197	-19,646	222	-7,872	5,345	741	1,721	-438	-950
Local government	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pension and employment fund	-576	463	66	-35	-84	24	52	34	-163	171	-49	-35	57	-2	-275	27
Banks	3,208	152	63	297	2,055	-2,850	125	-1,184	-918	1,006	-1,264	-956	-403	2,986	-2,498	1,398
Other items, net	292	753	-629	380	-946	-2,824	-1,035	-427	2,134	-7,348	7,321	106	-1,210	-4,378	3,990	455
Reserve money	13,246	14,527	-1,831	1,872	7,390	4,462	-2,083	1,806	7,900	1,671	-5,382	1,763	3,549	3,359	-8,278	-1,872
Currency outside Central Band of Armenia	9,817	14,689	-2,944	2,720	7,241	4,384	-3,357	1,746	2,564	4,118	-4,577	-1,978	3,996	5,689	-10,655	1,590
Required reserves	1,451	882	233	353	818	-237	-644	71	2,737	2,338	-892	3,233	-276	-2,214	2,175	-3,453
Correspondent accounts	1,978	-1,579	977	-945	-634	268	1,932	-121	2,493	-4,663	0	0	0	0	0	0
Other accounts	...	161	-97	-256	-35	47	-14	110	106	-122	87	508	-171	-116	202	-9

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

Table 22. Armenia: Monetary Survey, 1994-99

(End of period, millions of dram)

	1994	1995	1996				1997				1998				1999	
	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Stocks																
Net foreign assets (convertible currencies)	6,435	14,823	15,940	13,721	2,488	7,769	1,842	-3,693	24,728	29,945	26,174	21,952	24,763	17,562	11,182	5,592
Net domestic assets	17,421	25,429	21,119	27,412	49,935	46,602	53,706	62,859	42,930	40,303	44,942	54,752	64,899	77,952	76,709	87,059
Consolidated government	6,901	8,819	5,874	11,616	29,536	23,354	26,831	31,521	13,836	14,302	6,754	12,659	16,136	19,984	15,989	20,617
Republican government	8,423	9,883	6,811	12,389	30,093	23,789	27,531	32,063	14,874	15,097	7,558	13,241	16,629	20,787	16,967	21,198
Local government	-785	-857	-732	-530	-250	-222	-494	-384	-680	-577	-705	-448	-416	-347	-382	-303
Pension and employment fund	-737	-207	-205	-243	-307	-213	-206	-158	-358	-218	-99	-134	-77	-456	-596	-278
Economy	20,740	37,947	39,694	31,340	30,197	37,181	40,760	47,032	44,286	48,486	52,547	54,448	62,806	78,989	76,261	82,640
Enterprises	20,095	33,856	35,713	27,503	25,789	32,040	34,808	39,724	36,730	37,560	36,113	36,661	35,989	45,828	40,551	44,276
Rest of economy	645	4,091	3,981	3,837	4,408	5,141	5,952	7,308	7,556	10,926	16,434	17,787	26,817	33,161	35,710	38,364
Other items, net	-10,220	-21,337	-24,449	-15,544	-9,798	-13,933	-13,885	-15,694	-15,192	-22,485	-14,359	-12,355	-14,043	-21,021	-15,541	-16,198
Broad money	23,856	40,252	37,059	41,133	52,423	54,371	55,548	59,166	67,658	70,248	71,116	76,704	89,662	95,514	87,891	92,651
Currency in circulation	10,063	24,601	21,075	23,890	30,276	34,784	31,136	32,548	34,637	37,596	34,672	32,275	36,457	41,370	31,603	33,801
Dram deposits	3,871	7,432	7,437	8,101	10,719	8,158	8,565	10,343	12,097	9,085	13,059	14,796	16,818	16,169	14,216	17,002
Foreign exchange deposits	9,922	8,219	8,547	9,142	11,428	11,429	15,847	16,275	20,924	23,567	23,385	29,633	36,387	37,975	42,072	41,848
Flows (with respect to end of previous period)																
Net foreign assets (convertible currencies)	4,906	8,388	1,117	-2,219	-11,233	5,281	-5,927	-5,535	28,421	5,217	-3,771	-4,222	2,811	-7,201	-6,380	-5,590
Net domestic assets	15,908	8,008	-4,310	6,293	22,523	-3,333	7,104	9,153	-19,929	-2,627	4,639	9,810	10,147	13,053	-1,243	10,350
Consolidated government	5,649	1,918	-2,945	5,742	17,920	-6,182	3,477	4,690	-17,685	466	-7,548	5,905	3,477	3,848	-3,995	4,628
Republican government	7,178	1,460	-3,072	5,578	17,704	-6,304	3,742	4,532	-17,189	223	-7,539	5,683	3,388	4,158	-3,820	4,231
Local government	-800	-72	125	202	280	28	-272	110	-296	103	-128	257	32	69	-35	79
Pension and employment fund	-729	530	2	-38	-64	94	7	48	-200	140	119	-35	57	-379	-140	318
Economy	20,316	17,207	1,747	-8,354	-1,143	6,984	3,579	6,272	-2,746	4,200	4,061	1,901	8,358	16,183	-2,728	6,379
Enterprises	19,696	13,761	1,857	-8,210	-1,714	6,251	2,768	4,916	-2,994	830	-1,447	548	-672	9,839	-5,277	3,725
Rest of economy	620	3,446	-110	-144	571	733	811	1,356	248	3,370	5,508	1,353	9,030	6,344	2,549	2,654
Other items, net	-10,057	-11,117	-3,112	8,905	5,746	-4,135	48	-1,809	502	-7,293	8,126	2,004	-1,688	-6,978	5,480	-657
Broad money	20,814	16,396	-3,193	4,074	11,290	1,948	1,177	3,618	8,492	2,590	868	5,588	12,958	5,852	-7,623	4,760
Currency in circulation	9,045	14,538	-3,526	2,815	6,386	4,508	-3,648	1,412	2,089	2,959	-2,924	-2,397	4,182	4,913	-9,767	2,198
Dram deposits	3,204	3,561	5	664	2,618	-2,561	407	1,778	1,754	-3,012	3,974	1,737	2,022	-649	-1,953	2,786
Foreign exchange deposits	8,565	-1,703	328	595	2,286	1	4,418	428	4,649	2,643	-182	6,248	6,754	1,588	4,097	-224
Memorandum items:																
Money multiplier	1.6	1.4	1.3	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.6	1.6	1.8	1.8	1.9	2.1
Velocity	19.2	14.6	15.7	14.5	13.7	13.8	12.9	13.1	11.9	12.8	13.1	11.8	10.6	10.4	11.2	10.8

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

Table 23. Armenia: Commercial Banks' Interest Rates for Loans and Deposits in Drams and U.S. Dollars 1996-99  
(Annualized interest rates)

	1996				1997				1998				1999	
	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
<b>Dram</b>														
One-month														
Deposit	64.0	22.7	15.2	21.0	50.9	22.4	32.0	22.2	23.7	22.1	26.5	27.2	27.4	31.2
Loan	147.7	122.1	104.1	93.9	73.8	62.7	76.6	85.4	66.3	69.8	82.5	81.2	69.5	77.7
Three-month														
Deposit	79.5	42.8	29.0	23.6	38.7	26.1	39.9	40.2	8.3	41.5	26.8	27.1	22.9	35.8
Loan	164.3	97.3	93.4	82.6	84.0	84.3	74.0	63.0	66.1	48.4	50.9	57.8	56.6	56.7
Six-month														
Deposit	47.0	37.4	37.1	22.8	12.0	22.7	28.8	42.3	37.8	37.4	22.0	24.6	23.1	33.5
Loan	99.7	66.4	48.6	63.5	53.4	57.7	68.1	62.9	65.7	55.0	56.8	56.1	53.5	41.1
<b>U.S. Dollars</b>														
One-month														
Deposit	53.2	30.5	27.6	32.9	32.6	32.2	27.3	24.7	20.7	18.6	20.1	23.1	20.7	14.3
Loan	77.0	53.6	117.1	54.4	67.8	63.2	90.1	67.5	59.6	65.3	56.5	64.7	46.2	55.9
Three-month														
Deposit	46.1	39.7	40.5	37.2	33.7	24.5	31.5	28.0	26.5	24.0	25.4	23.3	26.4	26.7
Loan	113.7	99.3	95.9	65.4	66.4	51.8	75.3	63.3	65.2	65.5	17.8	50.7	51.7	55.0
Six-month														
Deposit	31.3	45.0	32.6	29.3	17.1	32.4	22.1	29.5	20.1	28.2	25.0	25.1	24.9	24.9
Loan	63.3	53.1	57.5	69.4	50.9	48.8	50.9	58.0	55.1	43.3	43.9	43.2	40.0	36.5

Source: Central Bank of Armenia.



Table 24. Armenia: Treasury Bills, 1995-99

Government securities	1995		1996				1997				1998				1999	
	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
	(In million of drams)															
Treasury bills outstanding																
28 days	100	160	348.4	690	700	284	152	222	...	125.45	72.5	...	100	725	...	242
91 days	150	...	150	874	1,192	2,360	1,300	1,200	300	678	417	800	144	1,011	2,294	1,800
182 days	...	...	...	357	884	1,805	940	524	1,500	760	1,124	1,100	711	939	1,658	914
273 days	...	...	...	...	...	...	750	364	1,200	1,050	675	1,000	412	200	189	1,199
364 days	...	...	...	...	...	...	...	500	1,100	600	581	1,000	...	...	...	600
Total allocated at face value	250	160	498	1,921	2,776	4,449	3,142	2,810	4,100	3,213	2,869	3,900	1,366	2,875	4,141	4,755
Outstanding at face value	250	210	825	2,642	5,482	10,218	9,875	11,569	16,639	19,932	20,337	22,417	21,754	20,618	19,814	20,319
	(In percent)															
Treasury bill average interest rate																
28 days	38.5	37.1	37.6	36.7	29.4	43.0	50.1	42.9	...	28.6	53.7	...	37.3	50.5	...	41.2
91 days	37.0	...	38.1	38.2	39.3	57.4	71.9	54.8	44.7	45.9	59.4	34.2	48.1	58.7	59.9	53.9
182 days	...	...	...	39.8	39.3	56.5	75.5	48.3	46.5	48.9	61.2	35.6	42.9	62.1	59.6	55.3
273 days	...	...	...	...	...	...	81.2	57.4	46.2	49.3	61.9	34.3	40.5	58.3	68.0	58.3
364 days	...	...	...	...	...	...	...	60.9	43.7	48.5	63.9	35.2	...	...	...	68.7
Weighted average interest rate	37.6	37.1	37.8	38.0	36.8	56.1	74.1	54.1	45.5	47.5	61.5	34.9	42.3	57.8	60.1	56.5
Real weighted average interest rate	...	...	37.8	38.0	36.8	56.1	74.1	54.1	45.5	47.5	61.5	34.9	42.3	57.8	60.1	56.5

Sources: Central Bank of Armenia and Fund staff estimates.

Table 25. Armenia: Quarterly Balance of Payments and External Financing, 1995-99  
(In millions of U.S. dollars unless otherwise indicated)

	1995	1996	1997	1998				Year	1999 Q1
				Q1	Q2	Q3	Q4		
Current account (excluding official transfers)	-399	-408	-456	-105	-91	-133	-187	-515	-85
Trade balance	-403	-469	-559	-125	-130	-135	-188	-577	-108
Exports	271	290	234	58	61	57	53	229	51
Imports	-674	-760	-793	-182	-190	-193	-241	-806	-160
Services (net)	-14	-6	36	0	16	-10	-9	-2	5
Non-factor services	-54	-51	-63	-13	-12	-16	-23	-63	-6
Credit	29	78	97	28	36	34	32	131	31
Debit	-83	-129	-159	-41	-48	-49	-55	-194	-37
Interest (net)	-13	-7	-14	-2	0	2	-3	-3	-2
Other factor services	54	52	113	16	28	3	17	63	14
Private transfers	18	67	68	20	23	13	10	65	18
Capital flows	-25	-36	28	81	19	26	74	199	4
Amortization	-50	-54	-24	-4	-7	-4	-7	-22	-4
Foreign direct investment	25	18	52	85	26	30	80	221	8
Balance on current account and capital flows	-424	-444	-428	-24	-72	-107	-113	-316	-81
Change in gross official reserves (- inc.)	-76	-61	-83	-15	8	-9	-35	-52	22
Financing requirement	500	505	511	39	64	116	148	368	60
IFIs	156	151	119	29	9	10	54	103	6
IMF (net)	46	49	23	23	0	0	29	52	-2
World Bank	91	92	76	6	4	9	23	41	5
EBRD	19	8	19	1	4	0	1	5	1
IFAD	0	1	1	0	2	2	2	6	2
Official transfers	197	184	156	22	29	36	36	123	21
United States	142	136	121	21	29	30	15	95	15
European Union	32	21	28	1	1	6	13	21	1
Others	23	27	7	0	-1	1	8	7	5
Other financing (disbursements)	8	120	108	11	0	7	43	62	0
Bilateral	8	62	43	11	0	7	43	62	0
<i>of which:</i>									
Russia	8	14	27	0	0	3	11	14	0
Turkmenistan	0	34	0	0	0	0	0	0	0
United States	0	14	15	11	0	4	0	15	0
EU	0	0	0	0	0	0	32	32	0
Commercial	0	58	65	0	0	0	0	0	0
Other capital (incl. errors and omissions)	88	54	129	-23	25	63	70	135	33
Changes in non-IMF reserve liabilities	0	5	0	0	-3	0	0	-3	0
Changes in overdue obligations (- decrease)	50	-9	-6	0	2	0	-55	-53	0
Debt service relief	0	0	5	0	0	0	0	0	0
Memorandum items:									
Current account balance (in percent of GDP)	-31.0	-25.6	-28.0	-22.2	-19.8	-28.2	-38.7	-27.3	-18.7
Gross official reserves (convertible)	110.0	170.6	242.6	259.6	252.4	262.9	297.9	297.9	276.1
(In months of imports of goods and nonfactor services)	1.7	2.3	3.1	3.5	3.2	3.3	3.0	3.6	4.2
Net international reserves (convertible)	39.8	46.7	106.0	98.5	92.7	102.0	108.5	108.5	89.2
Exports of GNFS (in percent of GDP)	23.3	23.1	20.3	18.2	21.2	19.3	17.7	19.1	18.0
Imports of GNFS (in percent of GDP)	58.8	55.8	58.5	47.3	52.1	51.3	61.3	53.0	43.0
External debt 1/	381.8	613.2	806.3	765.3	766.6	781.3	827.8	827.8	826.2
<i>Of which:</i> Public and publicly guaranteed	381.8	571.5	720.7	756.8	758.1	772.8	812.3	812.3	810.7
External debt/GDP (in percent) 1/	29.7	38.5	49.5	40.5	41.9	41.4	42.8	43.9	45.2
<i>Of which:</i> Public and publicly guaranteed	29.7	35.9	44.3	40.0	41.4	40.9	42.0	43.1	44.4
Debt service obligations	62.8	74.6	48.2	9.2	15.5	8.3	15.3	48.3	10.5
(In percent of exports of G&NFS)	21.0	20.3	14.6	10.7	15.9	9.1	17.9	13.4	12.7

Sources: Data provided by the Armenian authorities, multilateral and bilateral donors, and Fund staff estimates and projections.

1/ Includes private non-guaranteed debt.

Table 26. Armenia: Summary External Debt Data, 1995-99

	1995	1996	1997	1998	1999
					Q1
(In millions of U.S. dollars; unless otherwise indicated)					
Total external debt outstanding	381.8	613.2	806.3	827.8	826.2
In percent of GDP	29.7	38.5	49.5	43.9	45.2
Multilateral	214.7	353.4	462.1	563.3	565.6
Bilateral	167.1	198.1	228.1	228.0	224.0
Commercial	0.0	61.7	116.2	36.5	36.5
<i>Of which:</i>					
Public and publicly-guaranteed	381.8	571.5	720.7	812.3	810.7
Concessional 1/	98.4	249.9	362.8	480.6	486.9
Debt service payments due 2/	62.8	74.6	48.2	48.3	10.5
Multilateral	4.1	7.3	12.6	18.2	6.4
Bilateral	58.7	66.3	13.7	20.2	4.1
Commercial	0.0	1.0	21.9	9.9	0.0
Amortization payments due	50.2	54.0	24.2	24.7	6.2
Multilateral	0.0	0.0	4.0	8.1	3.8
Bilateral	50.2	53.2	5.8	9.8	2.5
Commercial	0.0	0.8	14.4	6.8	0.0
Interest payments due	12.7	20.6	24.0	23.6	4.3
Multilateral	4.1	7.3	8.6	10.0	2.6
Bilateral	8.5	13.1	7.9	10.4	1.6
Commercial	0.0	0.2	7.5	3.1	0.0
(In percent of exports of goods and nonfactor services)					
Debt service payments due	21.0	20.3	14.6	13.4	12.7
Multilateral	1.4	2.0	3.8	5.1	7.8
Bilateral	19.6	18.0	4.1	5.6	5.0
Commercial	0.0	0.3	6.6	2.7	0.0

Sources: Armenian authorities and Fund staff estimates.

1/ Loans with a grant element of at least 35 percent.

2/ On total external debt.

Table 27. Armenia: Commodity Composition of Trade, 1995-99  
(In percent of total)

	1995	1996	1997	1998	1999 1/
Total exports	100.0	100.0	100.0	100.0	100.0
Food, drinks and tobacco	5.1	4.5	12.1	8.3	5.2
Mineral and chemical products	20.2	11.3	13.5	18.6	21.0
Textiles, leather, and footwear	9.2	4.6	5.9	7.1	7.6
Jewelry	33.0	48.3	23.7	24.1	37.5
Non-precious metals	11.4	16.3	24.8	18.3	17.1
Machinery, means of transport and tools	18.2	13.6	16.8	21.7	7.5
Other products	2.9	1.4	3.2	2.0	4.2
Total imports	100.0	100.0	100.0	100.0	100.0
Food, drinks and tobacco	33.5	34.1	30.8	32.6	24.8
Mineral and chemical products	42.2	29.9	35.7	33.9	36.7
Textiles, leather, and footwear	1.3	3.2	5.1	4.3	5.0
Jewelry	9.3	15.2	5.3	5.0	11.0
Non-precious metals	2.4	1.2	2.8	2.2	3.2
Machinery, means of transport and tools	9.1	12.1	14.8	14.0	12.3
Other products	2.3	4.4	5.6	8.0	6.9

Source: Ministry of Statistics.

1/ First half only.

Table 28. Armenia: Direction of Trade, 1995-99

	1995	1996	1997	1998				1999
				Q1	Q2	Q3	Q4	Q1
(In millions of U.S. dollars)								
Total Exports	270.9	290.3	232.5	56.8	59.6	54.5	49.6	51.7
CIS	169.6	128.1	94.7	28.3	23.5	16.2	12.5	14.3
Georgia	2.7	6.9	10.7	2.9	2.1	1.7	2.8	5.5
Russia	90.8	96.1	62.9	12.1	14.4	7.7	5.8	5.3
Turkmenistan	68.7	17.5	13.8	11.1	5.3	4.9	1.4	1.3
Other CIS	7.4	7.6	7.3	2.2	1.7	1.8	2.5	2.2
Non-CIS	101.3	162.2	137.8	28.5	36.1	38.2	37.1	37.4
Belgium	30.8	44.7	47.0	12.2	13.4	10.8	13.5	16.7
Germany	10.1	3.7	9.3	1.4	2.2	4.0	1.6	1.7
Iran, Islamic Republic of	35.0	43.9	42.6	6.9	7.0	8.2	9.2	10.0
United States of America	0.6	4.4	7.1	3.0	2.3	2.3	3.9	3.1
Other non-CIS	24.8	65.5	31.9	5.1	11.1	12.8	8.9	5.9
Total Imports (CIF)	673.9	855.8	892.3	203.9	211.7	214.1	272.6	181.6
CIS	334.0	277.7	299.1	60.3	40.6	39.0	90.3	48.6
Georgia	61.8	51.2	38.2	7.3	6.4	6.3	6.8	5.3
Russia	135.1	125.5	215.9	49.8	31.9	29.1	80.7	40.8
Turkmenistan	129.3	86.4	27.7	0.0	0.2	0.2	0.1	0.3
Other CIS	7.7	14.6	17.4	3.2	2.0	3.5	2.8	2.2
Non-CIS	339.9	578.1	593.2	143.6	171.2	175.1	182.3	133.0
Belgium	15.6	49.5	49.7	11.2	15.3	13.3	14.9	18.4
Germany	11.3	17.4	26.2	4.8	9.5	8.9	10.8	5.7
Iran, Islamic Republic of	89.8	149.8	88.7	13.7	14.4	16.7	19.2	13.7
United States of America	114.4	103.6	116.1	21.5	27.1	27.3	20.4	21.7
Other non-CIS	108.8	257.8	312.5	92.4	104.9	108.9	117.1	73.4
(In percent of total exports)								
Total Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
CIS	62.6	44.1	40.7	49.8	39.4	29.8	25.3	27.6
Georgia	1.0	2.4	4.6	5.1	3.6	3.2	5.7	10.7
Russia	33.5	33.1	27.1	21.3	24.1	14.2	11.7	10.2
Turkmenistan	25.4	6.0	5.9	19.5	8.9	9.1	2.8	2.4
Other CIS	2.7	2.6	3.1	3.9	2.8	3.4	5.1	4.2
Non-CIS	37.4	55.9	59.3	50.2	60.6	70.2	74.7	72.4
Belgium	11.4	15.4	20.2	21.4	22.5	19.9	27.1	32.4
Germany	3.7	1.3	4.0	2.5	3.8	7.4	3.3	3.2
Iran, Islamic Republic of	12.9	15.1	18.3	12.1	11.8	15.1	18.6	19.4
United States of America	0.2	1.5	3.1	5.3	3.9	4.3	7.8	5.9
Other non-CIS	9.1	22.6	13.7	8.9	18.6	23.6	17.9	11.5
(In percent of total imports)								
Total Imports (CIF)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
CIS	49.6	32.5	33.5	29.6	19.2	18.2	33.1	26.8
Georgia	9.2	6.0	4.3	3.6	3.0	2.9	2.5	2.9
Russia	20.0	14.7	24.2	24.4	15.1	13.6	29.6	22.4
Turkmenistan	19.2	10.1	3.1	0.0	0.1	0.1	0.0	0.2
Other CIS	1.1	1.7	1.9	1.6	0.9	1.6	1.0	1.2
Non-CIS	50.4	67.5	66.5	70.4	80.8	81.8	66.9	73.2
Belgium	2.3	5.8	5.6	5.5	7.2	6.2	5.5	10.2
Germany	1.7	2.0	2.9	2.4	4.5	4.2	4.0	3.1
Iran, Islamic Republic of	13.3	17.5	9.9	6.7	6.8	7.8	7.0	7.6
United States of America	17.0	12.1	13.0	10.5	12.8	12.8	7.5	12.0
Other non-CIS	16.1	30.1	35.0	45.3	49.5	50.9	42.9	40.4

Sources: Ministry of Statistics; and Fund staff estimates.

Table 29. Armenia: Incorporatized and Partially Privatized Enterprises, 1994-99

	1994	1995	1996	1997	1998	1999	
						Q1	Q2
Number of state-owned enterprises existing prior to 1992							
<i>Of which:</i> Small	10,197						
Medium and large	2,000						
Total	12,197						
Number of incorporatized and partially privatized enterprises (in each year)							
<i>Of which:</i> Small	257	1,574	2,132	2,058	603	76	75
Medium and large	...	240	613	396	210	16	17
Total	257	1,814	2,745	2,454	813	92	92
Number of incorporatized and partially privatized enterprises (cumulative)							
<i>Of which:</i> Small	257	1,831	3,963	6,021	6,624	6,700	6,775
Medium and large	...	240	853	1,250	1,460	1,476	1,993
Total	257	2,071	4,816	7,271	8,084	8,176	8,268
Share of incorporatized and partially privatized enterprises in total (in percent)							
<i>Of which:</i> Small	2.1	14.9	22.5	59.0	65.0	65.7	66.4
Medium and large	2.5	15.4	20.9	62.5	73.0	73.8	74.7
Total	...	12.0	30.7	59.6	66.3	67.0	67.8

Source: Armenian authorities.

Table 30. Armenia: Banking System Indicators, 1997-99

	1997				1998				1999	
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	June
Total Capital to Risk Weighted Assets Ratio 1/	29.4	28.5	28.7	27.0	33.6	31.9	29.5	29.8	29.6	27.1
Core Capital to Risk Weighted Assets Ratio	21.2	21.0	27.4	25.2	30.5	29.1	27.3	27.2	27.0	25.5
Highly Liquid Assets to Total Capital Ratio 1/	33.4	41.8	52.7	45.8	38.7	39.9	40.7	37.8	34.2	34.7
Highly Liquid Assets to Demand Liabilities Ratio	86.7	96.2	110.0	94.8	88.7	88.2	90.7	83.4	87.6	84.4
Total Non-performing Loan to Total Loan Ratio 2/	24.7	24.4	20.1	11.3	9.1	8.8	7.7	9.3	9.4	...

Source: Armenian authorities.

1/ Revised indicators based on a new classification recently provided by the CBA.  
 2/ May differ from the CBA's recently revised indicators of non-performing loans.

Table 31. Armenia: Banking Sector Loans, 1996-99  
(In millions of Dram)

	1996				1997				1998 1/				1999 1/	
	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
Credit in drams	14,158	14,728	14,782	13,399	12,904	12,306	8,243	9,275	...	...	...	...	...	...
Industry	1,815	580	546	1,632	1,623	919	501	749	4,126	5,499	6,282	6,340	4,860	5,008
Agriculture and processing industry	652	607	334	243	239	219	143	581	2,478	3,191	3,150	3,860	3,740	4,566
Construction	223	217	197	225	183	91	52	52	1,042	945	1,093	1,912	1,053	2,051
Energy	2,894	3,665	4,206	2,370	1,845	1,422	1,452	2,737	16,993	16,946	16,395	23,711	15,833	17,574
Commerce	1,470	1,732	1,583	1,553	1,578	1,553	1,741	3,104	7,054	6,496	7,174	7,598	6,179	6,935
Services	254	231	194	166	145	58	16	16	...	...	...	...	...	...
Other sectors	760	716	1,617	994	1,263	1,825	1,585	1,482	20,822	24,702	25,922	32,969	33,449	32,197
Transport and communication	101	99	58	315	190	123	59	61	421	671	496	1,001	416	616
Overdue loans	5,989	6,881	6,047	5,901	5,838	6,096	2,694	493	...	...	...	...	...	...
Credit in foreign exchange	3,651	4,320	5,757	14,395	15,551	20,211	23,150	23,571	...	...	...	...	...	...
Credit to enterprises	17,809	19,048	20,539	27,794	28,455	32,517	31,393	32,846	52,936	58,450	60,512	77,391	65,530	68,947
Share of total credit to enterprises														
Industry	10.2	3.0	2.7	5.9	5.7	2.8	1.6	2.3	7.8	9.4	10.4	8.2	7.4	7.3
Agriculture and processing industry	3.7	3.2	1.6	0.9	0.8	0.7	0.5	1.8	4.7	5.5	5.2	5.0	5.7	6.6
Construction	1.3	1.1	1.0	0.8	0.6	0.3	0.2	0.2	2.0	1.6	1.8	2.5	1.6	3.0
Energy	16.3	19.2	20.5	8.5	6.5	4.4	4.6	8.3	32.1	29.0	27.1	30.6	24.2	25.5
Commerce	8.3	9.1	7.7	5.6	5.5	4.8	5.5	9.5	13.3	11.1	11.9	9.8	9.4	10.1
Services	1.4	1.2	0.9	0.6	0.5	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	4.3	3.8	7.9	3.6	4.4	5.6	5.0	4.5	39.3	42.3	42.8	42.6	51.0	46.7
Transport and communication	0.6	0.5	0.3	1.1	0.7	0.4	0.2	0.2	0.8	1.1	0.8	1.3	0.6	0.9
Overdue loans	33.6	36.1	29.4	21.2	20.5	18.7	8.6	1.5	...	...	...	...	...	...
Credit in foreign exchange	20.5	22.7	28.0	51.8	54.7	62.2	73.7	71.8	...	...	...	...	...	...
Credit to enterprises	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Armenia.

1/ Based on International Accounting Standards classifications



Table 32. Armenia: Total Electricity Generation, Distribution and Collection, 1994-99

	1994	1995	1996	1997	1998	1998		1999	
						Q1	Q2	Q1	Q2
Production of electric energy (in millions of kilowatts)	5,673	5,576	6,229	6,030	5,684	1,813	1,171	1,618	1,359
<i>Of which:</i>									
Thermal	2,159	3,353	2,332	3,040	1,416	766	409	676	529
Hydro	3,514	1,919	1,573	1,390	2,801	333	408	259	332
Nuclear 1/	0	304	2,324	1,600	1,466	714	354	683	499
Production of electric energy (in percent of total)									
<i>Of which:</i>									
Thermal	38	60	37	50	25	42	35	42	39
Hydro	62	34	25	23	49	18	35	16	24
Nuclear	0	5	37	27	26	39	30	42	37
Distribution of Sales (in percent of total net generation) 2/									
Households	48	44	48	50	40	45	39	39	32
Industry (includes Nairit)	...	...	18	17	18	17	18	18	19
Budgetary organizations	...	...	7	8	7	11	5	12	6
Irrigation	...	...	7	6	10	0	14	3	20
Drinking water	...	...	11	7	9	8	9	9	9
Transport	...	...	...	3	4	5	4	4	4
Others	...	...	10	10	13	14	12	16	11
Collection rate (in percent of total sales)									
Households	26	26	40	58	86	85	97	72	84
Industry (includes Nairit)	...	...	103	71	96	149	71	61	149
Budgetary organizations	...	...	63	96	63	26	114	36	107
Irrigation 3/	...	...	18	12	25	192	5	213	37
Drinking water 4/	...	...	54	52	42	31	48	54	344
Transport 4/	...	...	...	95	84	55	115	154	95
Others	...	...	76	57	93	109	101	63	126
Total	42	58	59	62	77	86	77	70	114

Sources: Armenian authorities; and the World Bank.

1/ The nuclear power plant was recommissioned in November 1995.

2/ Excludes technical losses and self-use of electric power.

3/ The figure for 1996 includes other agriculture use of electricity.

4/ In 1996 transport was included in drinking water.

Table 33. General Government Tax Revenue in Selected BRO Countries  
(In percent of GDP)

	1994	1995	1996	1997	1998
Average (unweighted; twelve reform countries)	26.3	19.2	19.3	20.6	19.3
Armenia	13.0	12.7	12.9	16.4	17.1
Azerbaijan	16.9	10.4	14.2	17.0	15.0
Estonia	38.8	37.8	37.1	37.1	37.1
Georgia	3.7	4.6	7.2	8.8	8.7
Kazakhstan	...	20.0	19.7	19.0	16.6
Kyrgyz Republic 1/	13.7	15.0	12.0	12.5	13.8
Latvia	36.1	35.1	33.7	34.8	34.3
Lithuania	31.4	31.6	28.8	32.0	33.1
Moldova	26.4	28.8	27.4	29.9	30.6
Russia	30.9	27.5	27.6	28.4	25.5
Tajikistan	53.7	12.8	11.7	13.3	11.7
Ukraine	39.1	34.8	34.7	35.6	32.6

Source: National authorities, data as of June 1999.

1/ Central government only.

Table 34. General Government Tax Revenue Performance in Armenia and Comparator Countries 1995 - 1998 1/

	1995	1996	1997	1998
	(in percent of GDP)			
<i>Armenia</i>				
Total taxes	12.7	12.9	16.4	17.1
Indirect taxes	4.8	6.8	9.8	11.5
VAT/Sales tax	3.3	3.3	4.9	6.3
Customs duties	0.5	0.9	1.3	1.1
Others	1.0	2.6	3.5	4.1
Direct taxes	7.9	6.1	6.6	5.6
<i>Comparator group 1/</i>				
Total taxes	19.2	19.3	20.6	19.3
Indirect taxes 2/	9.0	9.8	10.8	10.1
VAT/Sales tax	4.7	5.0	5.6	5.7
Customs duties	0.7	0.7	1.0	1.1
Others	...	...	4.2	3.3
Direct taxes 2/	10.7	11.0	8.6	8.3
	(in percent of total revenue and grants)			
<i>Armenia</i>				
Total taxes	64.0	72.9	82.5	82.1
Indirect taxes	24.2	38.4	49.2	55.2
VAT/Sales tax	16.4	18.5	24.8	30.3
Customs duties	2.6	5.0	6.7	5.4
Others	5.2	14.9	17.6	19.5
Direct taxes	39.8	34.5	33.3	26.9
<i>Comparator group 1/</i>				
Total taxes	84.1	87.7	89.4	88.3
Indirect taxes 2/	39.4	44.5	46.8	46.1
VAT/Sales tax	20.5	22.6	24.2	26.0
Customs duties	3.3	3.0	4.5	4.9
Others	...	...	18.0	15.2
Direct taxes 2/	47.0	50.1	37.2	37.9
Memorandum items:				
Total revenues and grants in percent of GDP				
Armenia	19.9	17.7	19.8	20.8
Comparator group	22.9	22.0	23.0	21.8

Source: National authorities, data as of June 1999.

1/ Comparator group includes Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, and Ukraine.

Kyrgyz data includes central government only.

2/ Average excludes Georgia in 1995 and 1996.