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REPUBLIC OF ARMENIA

July 2013

SIXTH REVIEWS UNDER THE EXTENDED FUND FACILITY ARRANGEMENT AND THE EXTENDED CREDIT FACILITY ARRANGEMENT

In the context of the sixth reviews under the Extended Fund Facility arrangement and the Extended Credit Facility arrangement, the following documents have been released and are included in this package:

- **Staff Report** for the sixth reviews under the Extended Fund Facility arrangement and the Extended Credit Facility arrangement, prepared by a staff team of the IMF, following discussions that ended on May 1, 2013, with the officials of Armenia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 7, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Press Release** summarizing the views of the Executive Board

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Armenia*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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REPUBLIC OF ARMENIA

SIXTH REVIEWS UNDER THE EXTENDED FUND FACILITY ARRANGEMENT AND THE EXTENDED CREDIT FACILITY ARRANGEMENT

June 7, 2013

KEY ISSUES

Context. Led by mining, services, and agriculture, growth accelerated to 7.2 percent in 2012 and continued to be strong in 2013. Growth projections were raised from 4.3 to 5.1 percent for 2013 and from 4½ to 5½ percent for the medium term, predicated on strong reforms. The authorities consider that growth should remain at 6–7 percent. Downside risks include a possible hike of gas import prices, a slowdown in Russia and the EU, and geopolitical tensions. President Serzh Sargsyan was reelected in February, and a new cabinet headed by Prime Minister Tigran Sargsyan is in place.

Macroeconomic developments and policies. The 2012 fiscal deficit was lower than expected, 1.6 percent of GDP versus 2.1 percent projected at the time of the Fifth Reviews, reflecting sound revenue performance and delays in a large capital project. The 2013 budget foresees capital spending delays being overcome and a deficit of 2.6 percent of GDP; however, there are signs of further underspending on a major road project. Inflation remains subdued. Credit growth moderated in the first quarter of 2013, while bank profitability was lower. The Central Bank of Armenia (CBA) is implementing FSAP recommendations and reducing reserve requirements on dram deposits to target lower dollarization. The still-large current account deficit was reduced by just 0.3 percentage point of GDP in 2012, as exports and remittances grew strongly, but were largely offset by higher imports. Bank inflows and FDI picked up late in 2012. Reserves are adequate, but Armenia faces repayment of crisis support in 2013–15, calling for greater dram flexibility. Business climate and pension reforms are ongoing, but private investment remains weak.

Program. The program remains on track. All continuous and periodic performance criteria (PC) were met. The reserves and fiscal deficit targets were met with large margins. Most indicative targets (IT) were met. All but one of the structural benchmarks (SB) were met. The authorities are requesting that SDR 55.0 million become available with completion of the reviews.

Successor arrangement. The Sixth Reviews are the last under the program, and discussions were initiated on the outlines of a possible new arrangement. These are expected to continue and target a program that builds on the post-crisis stabilization to cover ambitious structural reforms needed to secure emerging market status. Higher tax revenues are needed to consolidate the adjustment and provide resources for more capital and social spending. Further dram flexibility is key to reducing the current account deficit, and with high dollarization and concentrated remittances and exports, the CBA should sustain its reserve holdings. Further financial sector deepening is also important, along with continuing business environment reforms. A clearer signal that Armenia is "open for business" is needed, through better public sector governance, an enhanced legal framework for competition, conclusion of the EU FTA, greater openness to FDI, and measures such as air transport liberalization and steps to begin planning for replacement of the Metsamor nuclear station. The conclusion of the two-year electoral cycle clears the way for action.

Approved By:
Juha Kähkönen (MCD) and Ranil Salgado (SPR)

Discussions were held April 18-May 1, 2013 in Yerevan with President Sargsyan, Prime Minister Sargsyan, CBA Chairman Javadyan, Finance Minister Gabrielyan, Economy Minister Davtyan, Energy Minister Movsisyan, other senior officials, and representatives of the private sector, civil society, and the diplomatic community. The team comprised M. Horton (head), J. Gijon, and P. Rodriguez (all MCD), M. Raissi (SPR), T. Komatsuzaki (FAD), and H. Tanimoto (MCM). G. Tolosa (IMF Resident Representative), M. Aleksanyan, A. Ghazaryan, and A. Manookian, (IMF office) assisted. M. Hadzi-Vaskov (OED) joined the discussions.

CONTENTS

ANNEXES

APPENDIX

ATTACHMENT

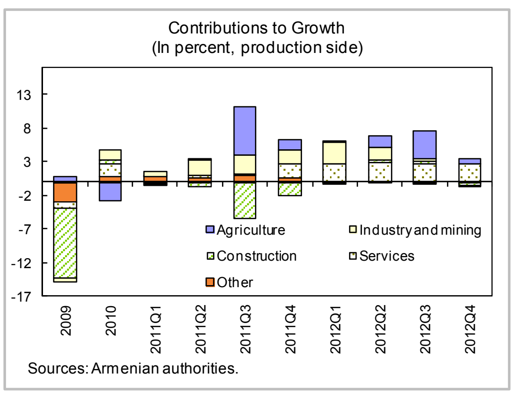
CONTEXT

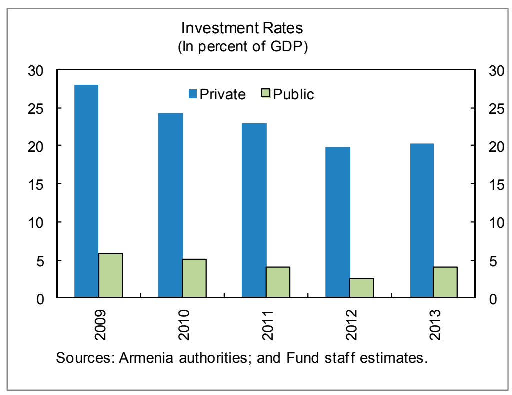
1. **Progress has been achieved under the EFF/ECF-supported program, but challenges remain.** Objectives under the program, which concludes in September, were to restore fiscal and external sustainability, preserve financial stability, restore growth, and reduce poverty. These have been largely met, but more progress is needed to continue the external adjustment, further restore buffers, and enhance the business climate and private sector- and export-led growth. The Sixth Reviews are the final reviews under the Fund-supported program.

2. **A cycle of parliamentary and presidential elections recently concluded.** Parliamentary elections in May 2012 gave a boost to President Sargsyan and the Republican Party, which gained a majority of seats. The president was re-elected to a second term in February 2013. Prime Minister Sargsyan was reappointed to head a new government confirmed by parliament in May. The finance and economy ministers were appointed to other positions, but policy continuity is expected.

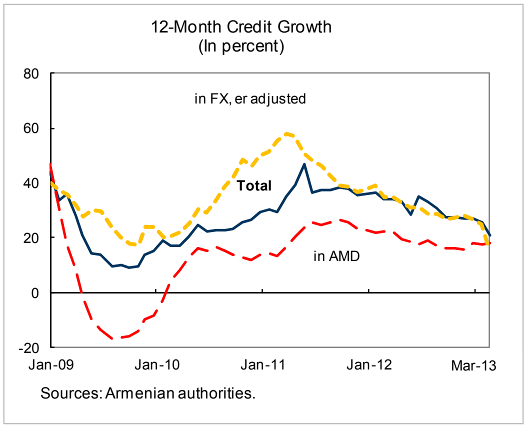
RECENT ECONOMIC DEVELOPMENTS

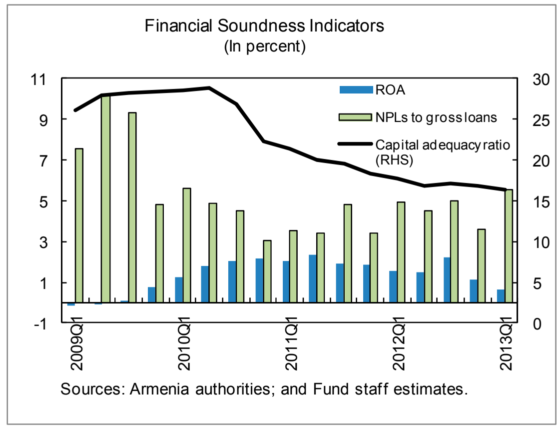
3. **Growth picked up from 4.7 percent in 2011 to 7.2 percent in 2012 and has remained strong in the first months of 2013.** Growth last year was led by agriculture and agro-processing, reflecting favorable weather, as well as mining and services. Construction made a positive contribution for the first time in several years. While the output gap is likely to have closed by end-2012, public and private investment remain weak and structural unemployment is elevated.



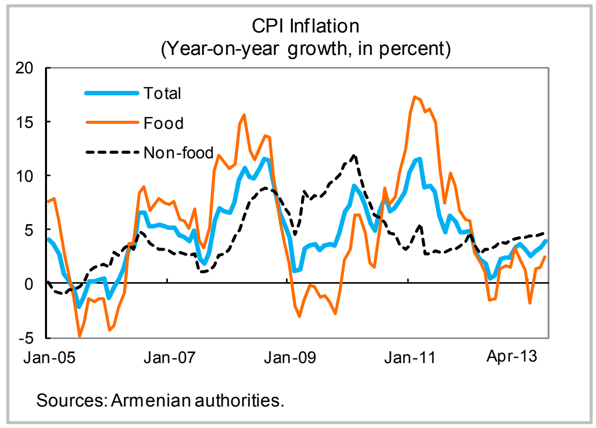


4. **The banking system remains sound, and strong credit expansion has continued, but dollarization remains high and financial sector indicators have been weakening.** Credit grew by 27 percent last year, led by foreign exchange (FX) lending. Deposit growth also remained strong, in both dram and dollars, and banks continue to be liquid. Credit growth slowed to 21 percent in the first quarter of 2013. Capital ratios are well above minimum requirements (16.4 percent at end March 2013), and nonperforming loans are at manageable levels (5½ percent of total loans). Nonetheless, dollarization remains high (70 percent of assets and liabilities) and financial soundness indicators (FSIs) have been trending gradually lower with high credit growth.

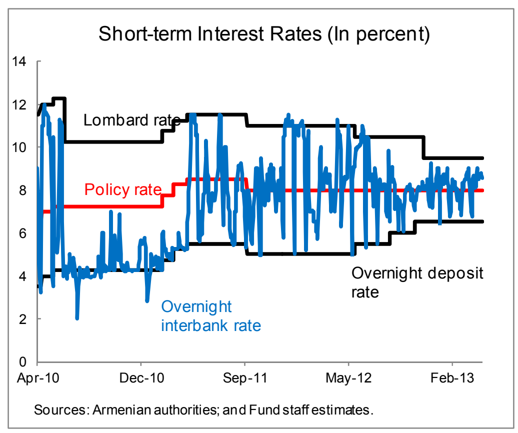




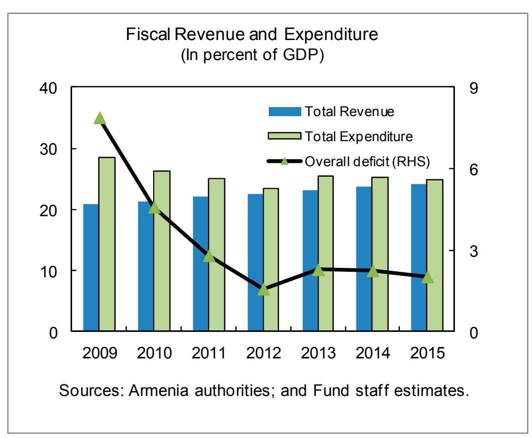
5. Inflation has remained below the midpoint of the CBA's target range (4±1.5 percent). Headline inflation was 3.2 percent in 2012, compared with 4.7 percent in 2011, reflecting lower food inflation. Inflation has picked up in 2013, reaching 3.9 percent in April.



6. With inflation low, monetary policy has kept a neutral stance, and macroprudential measures have targeted dedollarization. The CBA has kept the policy rate at 8 percent since 2011 and has narrowed the corridor around the policy rate from 600 to 300 basis points while strengthening fine-tuning operations. Interbank interest rates have become less volatile. New FX liquidity ratios became effective in January, in line with FSAP advice and the program. Aiming to reduce dollarization, the authorities cut reserve requirements on dram deposits from 8 to 4 percent in April (effective June).

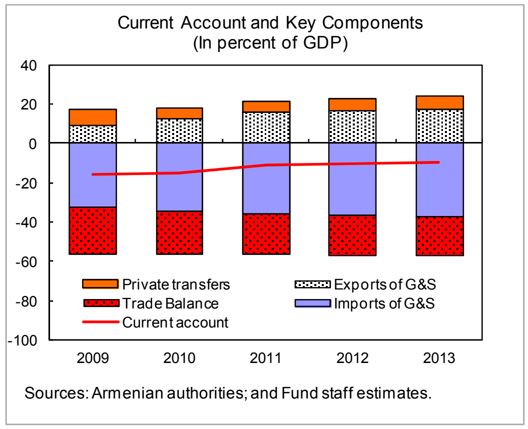


7. Fiscal deficit outturns have been lower than planned. The deficit in 2012 was 1.6 percent of GDP versus 3.1 percent in the budget and 2.1 percent projected at the Fifth Reviews. This reflected sound revenue performance and delays in contracting for the major North-South Highway project. Revenue outturns reflected an ambitious structural increase of tax revenues agreed under the program. The 2013 budget envisages capital spending delays being overcome and a deficit of 2.6 percent of GDP, but there are signs of new

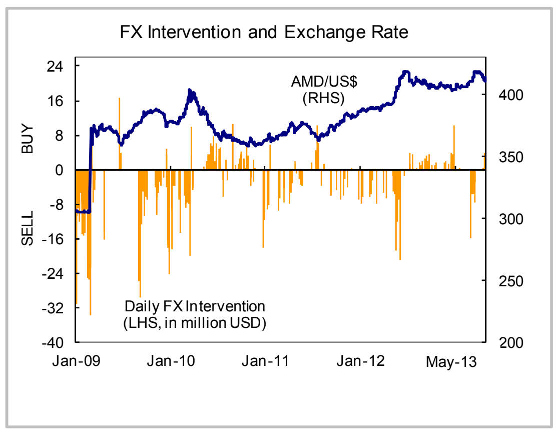


highway project delays from land use/right-of-way issues. The authorities are committed to bringing the headline deficit to 2 percent of GDP by 2015, staff's estimate for the debt-stabilizing level.

8. External adjustment slowed considerably in 2012, and external vulnerabilities persist. The current account deficit improved by just 0.3 percentage points of GDP last year, as exports and remittances grew at a healthy pace, as did (much larger) imports. Bank inflows and FDI, which were weak throughout most of 2012, picked up late in the year. Exports of metals and processed food continue to grow strongly in 2013, but higher imports, led by energy products, are again limiting improvement of the trade balance. At 10½ percent of GDP, the external current account deficit remains well above staff's estimate of the medium-term sustainable level of 6–7 percent of GDP. Armenia's export base and remittances are concentrated and vulnerable to fluctuations in metals prices and developments in Russia. Debt service costs are expected to increase with graduation from IMF concessional financing in April 2013, and possibly lower concessional support from other official creditors.



9. The dram was stable in late 2012 and early 2013, and the CBA rebuilt its reserves. The end-2012 NIR target was exceeded by a large margin. In March 2013, the CBA responded to large seasonal FX purchases by an energy importer in a thin market, selling $44 million to ease pressures. Since then, the CBA has again purchased dollars.



10. The authorities have prepared a new Armenia Development Strategy (ADS) for 2012–25. The ADS aims to create high-productivity jobs through further business reforms, financial deepening, export promotion, modernization of public administration and governance, and infrastructure and human capacity development. Business climate reforms have continued, while no developments have taken place with respect to the possible large-scale investment project for Nairit, the troubled synthetic rubber producer located in Yerevan. The private national air carrier, Armavia, ceased operations in April. The company's bank loans are mostly collateralized, helping contain impacts.

OUTLOOK AND RISKS

11. Growth is expected to moderate in 2013, but trend growth is likely to be higher. Strong 2012 results reflected good weather, high-but-declining metals prices, and robust consumption. The authorities strongly asserted that growth should remain at 6–7 percent in 2013, reflecting policy initiatives taken in recent years and expectations of continued high growth in industry. Staff urged caution, noting weak investment and a mark-down of growth in Russia and the EU. Relatively strong growth in industry and services should continue, however, while construction seems to have finally bottomed out and agriculture is benefitting from targeted investment and policy actions. Staff's growth projection for 2013 was revised from 4.3 to 5.1 percent, and medium-term growth raised to 5½ percent predicated on strong reforms.[1] Inflation should remain in the target range, although a possible hike in gas prices would put pressure on inflation (Box 1).

Box 1. Possible Gas Price Increase

Gas prices could increase sharply under a new supply agreement. The authorities are negotiating new prices with their Russian counterparts, and there are prospects for a sizeable increase, possibly by 20–30 percent, after no adjustments in 2011–12. Higher gas prices will also be accompanied by higher electricity prices.

A 20–30 percent increase of gas prices would impact:

- **Inflation**—a 2½–4 percentage point increase of headline inflation with full pass-through.
- **External balance**—an increase of imports by $90–130 million or 0.9–1.3 percent of GDP.
- **Fiscal**—targeted support to low-income households could amount to 0.1 percent of GDP; higher gas costs for budgetary institutions may amount to another 0.2 percent of GDP on a full year basis, if no cost containment measures are taken.
- **Growth**—GDP growth could be lower by 0.5–0.9 percentage points.

Policy response. The authorities intend to allow full pass-through, with modest support to low income households. They stand ready to contain second-round effects on inflation. More generally, the increase of energy prices will pose challenges for competitiveness and the external adjustment, calling for an acceleration of business environment reforms.

12. Risks remain from potential external shocks and regional tensions. Weaker global conditions are the main risk, particularly if Russia is affected. This could affect remittances, financial flows via Russian banks active in Armenia, and FDI. Regional risks (Nagorno-Karabakh) also remain. The authorities noted that a new Fund arrangement would help mitigate risks and catalyze support from other development partners.

[1] Annex I assesses sources of growth in Armenia.

SIXTH REVIEWS UNDER THE EXTENDED FUND FACILITY ARRANGEMENT/THE EXTENDED CREDIT FACILITY ARRANGEMENT-SUPPORTED PROGRAM

13. The Fund-supported program remains on track, and the authorities remain committed to the objectives of the EFF/ECF-supported program.

- **All performance criteria (PC) and most indicative targets (IT) were met.** The reserves and fiscal deficit targets were met with large margins. With large FX purchases in the late 2012, the reserve money ITs were missed. As inflation remained low, and market interest rates did not diverge from the policy rate, sterilization measures were not taken, consistent with the inflation-targeting regime, The end-2012 social spending target was missed due to slow transfers to newly-eligible households after further targeting efforts.

- **All but one of the structural benchmarks (SBs) were met.** Pension reform, regulatory streamlining, and bank reporting SBs were met. An SB on changes to the competition legal framework is outstanding. The authorities raised concerns with potential costs for business of further strengthening the powers of the competition committee (most notably, providing the committee with enhanced investigative powers). Observing that restrained competition is itself a serious constraint on business in Armenia, staff urged quick progress. The authorities will undertake a further review (led by external advisors) and pledged to build consensus for the changes later this year.

A. Monetary and Exchange Rate Policy and the Financial Sector

14. The authorities expect to maintain a neutral monetary policy stance, but stand ready to adjust policies. The CBA considers its stance consistent with the projected slight rise of inflation to the mid-point of the target band. However, with strong growth and prospects for a gas price hike, the CBA will monitor developments and inflation projections, standing ready to adjust policies. The CBA reconfirmed its commitment to a flexible exchange rate, with interventions aimed at maintaining a strong reserves buffer, including recouping the March FX sales, and dampening volatility. Staff welcomed the authorities' position, observing that lower reserve coverage and upcoming repayment of crisis-related financing would mean that support provided by the CBA to the FX market in recent years would likely be more constrained going forward. Staff also noted that efforts were needed to deepen and further develop the FX market, so that large, seasonal purchases of FX by energy importers do not trigger volatility. The CBA is continuing efforts to strengthen the inflation targeting regime, especially modeling and policy analysis and communications with the market and the public, in line with MCM/RES TA.

15. The CBA will continue to improve the regulatory and supervisory framework in line with FSAP and TA recommendations (Annex II)**.** The CBA is committed to gradually increasing the required FX liquidity ratios for banks applied since January. The CBA has also required banks to report on potential currency mismatches of large borrowers and will progressively introduce the Basel III framework to help ensure capital adequacy and market liquidity. Staff observed that as rapid credit growth has continued, FSIs (capital ratios, NPLs, profitability) have softened, although they remain sound. The authorities pledged to monitor developments closely, including repercussions from Armavia's difficulties. The legal and regulatory framework for pension reform is now largely in place, and the authorities are in discussions with global asset managers to become licensed to manage funds. Staff commended the authorities for consulting widely domestically and internationally on the pension reforms, putting a sound framework in place based on best practices, and seeking top asset managers to come to Armenia to manage pension resources.

B. Fiscal Policy

16. The 2013 fiscal deficit is likely to again be lower than budgeted. Revenues were strong in the first quarter, except for some major mining and fuel importing companies. Risks could rise if weak metals prices persist. Delays on the North-South highway are continuing, however, related now to land use/right-of-way issues. The authorities may adjust the economy-wide minimum wage, but pledged to keep budget impacts from this and other actions, such as targeted support for higher gas prices, within the established fiscal envelope. External financing for the budget that was expected in 2013, notably from the EU, may now come in 2014. The authorities will be able to offset the delays with a mix of additional support from other external partners and higher domestic financing. They have also initiated preparations for debut international financial market access.

17. Further fiscal consolidation is planned. The authorities' draft 2014–16 medium-term expenditure framework envisages lowering the deficit to 2 percent of GDP by 2015—consistent with staff's estimate of the debt-stabilizing level—supported by annual revenue increases of 0.3 percent of GDP. Pension reform costs of ½ percent of GDP start next year, however, implying further spending compression. Staff called for greater revenue gains, from higher rates on fuels, cigarettes, and alcohol, a new royalty on non-metallic minerals, removal of exemptions, and better compliance by large firms and high-wealth individuals. This would support consolidation and maintain growth enhancing and poverty reducing outlays (road maintenance, health and education), while avoiding further erosion of civil service wages.

18. Tax administration reforms are progressing. An April FAD TA mission found progress in taxpayer services, risk-based audit and dispute resolution and made recommendations to strengthen the taxpayer registry, audit processes, filing enforcement, arrears collection, and the organizational structure. In December, the authorities submitted legislative proposals to cabinet to adopt OECD guidelines for transfer pricing regulation (program SB). However, FAD experts subsequently identified areas for strengthening the draft legislation, and the authorities will improve the proposals, which are under parliament consideration. The authorities successfully integrated the personal income tax (PIT) and social contributions and launched a new electronic system for individual accounting of PIT payments and pension contributions.

19. The authorities are continuing efforts to integrate social benefit payments. Unified centers are being created nationwide to integrate the work of agencies that provide services to nearly 1 million recipients of pensions, family benefits, child allowances, and unemployment benefits. To roll out the new system in 2014, the required legal and regulatory changes are planned to be in place by October 31. Staff commended the authorities on their far-reaching efforts to integrate payments and services, but also expressed concern with the repeated breach of the social spending IT. The authorities noted that the issue should be self correcting, as it reflected further efforts to target social payments and administrative delays in making transfers to newly-eligible families. They also observed that the coverage of the IT is narrow and does not take into account other spending important for poverty alleviation, including medical care and training programs for socially vulnerable groups and child birth and child care benefits.

C. Structural Issues

20. The authorities continue to implement business climate reforms. These include a 2013 action plan in areas covered by the World Bank's Doing Business survey, inspection reforms, and the regulatory guillotine. In 2012, the guillotine developed packets of legal changes and regulatory streamlining in public utilities and road transport. A packet for health was prepared in March, and work is underway on packets in education, culture, social affairs, land and construction, and tax and customs. Donors would like to see faster progress based on an enhanced methodology to identify streamlining targets, greater private sector involvement, and adoption of regulatory impact analysis.

D. Successor Program

21. The authorities again indicated strong interest in a successor program. This would provide policy continuity and support for further rebuilding of buffers, ongoing fiscal and external adjustment, and structural reforms needed for diversification and export-led growth. During a period of significant repayment of crisis support, a new program would provide assurances to other partners, help lay the basis for market access, and mitigate vulnerabilities and risks. The authorities expressed regret at the loss of access to concessional Fund resources, noting that poverty and external vulnerabilities remain high. They recognized, however, that income levels are well above the threshold, while severe vulnerabilities have eased.

22. Staff emphasized remaining challenges and the need for ambitious actions. These should aim to: raise revenues to consolidate the fiscal adjustment and provide resources for capital and social spending; further strengthen the inflation targeting regime; deepen the financial sector; increase ER flexibility, sustain CBA reserves, and reduce the still-large current account deficit; and strengthen the business environment and competitiveness, and importantly, send a strong signal that Armenia is "open for business," through better public sector governance, improved domestic competition, conclusion of the EU free trade agreement, greater openness to FDI, and measures such as airline sector liberalization and initiation of clear steps to replace the aging Metsamor plant, which supplies 40 percent of Armenia's energy needs.[2] Discussions are expected to continue later this year.

STAFF APPRAISAL

23. Policies have largely delivered on the objectives of the EFF/ECF-supported program, which concludes with these final, Sixth Reviews. Growth reached 4.7 percent in 2011, 7.2 percent last year, and continues to be strong in 2013. Inflation has remained durably below the CBA's 4 percent target, and shocks have been short-lived. The CBA has permitted greater flexibility of the dram over the past year, rebuilt reserves following sizeable intervention last May-June, and strengthened the monetary framework and operations. The CBA has also moved decisively to implement FSAP and TA recommendations. Banking sector indicators remain sound. The fiscal adjustment, which included substantial tax revenue increases over the past three years, has reestablished sustainability and contributed to external adjustment. Exports, remittances, and private inflows have rebounded. Program performance has remained strong, with all PCs and most ITs and SBs met. The authorities should move expeditiously to strengthen the legal framework for competition, an important business obstacle in Armenia.

24. Significant challenges and vulnerabilities remain. Robust growth has resumed, but has reflected in part rapid growth of credit and consumption, favorable weather, and high metal prices. In addition, poverty has remained high. Investment–public, private, and foreign—must be strengthened through further, ambitious reforms to improve regional and global integration, domestic competition, and competitiveness. The shock of higher gas prices and replacement of Metsamor threaten to be a drag on the economy and on the external current account deficit. While tax revenues have increased in the last three years, this has put pressure on the business climate and SMEs. A rebalancing of the tax burden is needed to support further consolidation and to cover spending needs. In light of rapid credit growth, less-favorable FSIs, and high dollarization, close monitoring of risks to financial stability should continue, along with reforms to deepen and develop the financial sector. Armenia's still large external current account deficit is a concern, and reserves, although adequate, will come under pressure as crisis support is repaid. Risks from a global slowdown and regional tensions remain.

25. Staff commends the authorities for their strong management of public finances since the crisis. This continued through two rounds of elections on 2012–13. To help restore policy space, the headline fiscal deficit should be further reduced. With spending needs in various areas (pension reform costs, road maintenance, health and education, civil service compensation), efforts should focus on the revenue side.

[2] The 2012 EPA Update (SM/12/284) concluded that the Fund should remain engaged to support the design and implementation of a sound macro framework needed to gain international financial market access. A new program should lay the foundations for sustainable and inclusive growth, tackle governance issues, boost revenue mobilization, foster a business-friendly environment, continue financial reforms, and strengthen capacity for monetary policy implementation. A new program should also address the large current account deficit.

26. Monetary policy remains appropriate, although a tighter stance may be needed to contain second-round effects from a potential increase in gas prices. With credit growth easing and output growth moderating, the current stance is consistent with inflation increasing to the mid-point of the target band. Nonetheless, developments and inflation projections should be carefully monitored, and monetary policy adjusted as needed.

27. While external consolidation has taken place under the EFF/ECF-supported program, further progress is needed. The current account deficit is still high, exports are concentrated, and debt repayments are significant during 2013–15. Accordingly, the authorities should foster further adjustment so that the current account deficit reaches its estimated sustainable level of 6–7 percent of GDP. This should be based on structural reforms to enhance integration and competitiveness and a flexible exchange rate that moves gradually towards its equilibrium medium term level. FX interventions should be confined to smoothing volatility, while maintaining reserve buffers.

28. Structural policies should send a clear signal that Armenia is "open for business," domestically and internationally. This will require improving public sector governance, enhancing the legal framework and capacity for promoting domestic competition, strengthening regional and global integration (e.g., by concluding the EU FTA), showing greater openness to high-quality FDI, and taking actions in key sectors, such as liberalization air transport and beginning steps to replace Metsamor. The pension reform "blueprint" of consulting widely, putting in place a sound framework based on best practices, and seeking the best global players to come to Armenia should be rolled out to other sectors. The conclusion of the two-year electoral cycle clears the way for action.

29. Staff concurs with the authorities on the merits of a possible new program. A successor program should decisively address remaining challenges through ambitious actions, build on progress under the EFF/ECF-supported program, and draw on findings of the 2012 EPA.

30. Staff recommends completion of the Sixth Reviews under EFF/ECF-supported program and the disbursement of the related amounts**.**

Table 1. Armenia: Selected Economic and Financial Indicators, 2009–16

	2009	2010	2011	2012		2013		2014	2015	2016
	Act.	Act.	Act.	EBS/12/150	Prel.	EBS/12/150	Proj.	Proj.	Proj.	Proj.
National income and prices										
Real GDP (percent change)	-14.1	2.2	4.7	6.2	7.2	4.3	5.1	5.3	5.5	5.5
Gross domestic product (in billions of drams)	3,142	3,460	3,776	4,167	3,982	4,535	4,351	4,766	5,229	5,740
Gross domestic product (in millions of U.S. dollars)	8,648	9,260	10,138	10,216	9,933	10,497	10,365	10,452	10,883	11,714
Gross domestic product per capita (in U.S. dollars)	2,661	2,838	3,096	3,036	3,027	3,088	3,153	3,173	3,297	3,542
CPI (period average; percent change)	3.5	7.3	7.7	2.4	2.5	4.2	4.0	4.0	4.0	4.0
CPI (end of period; percent change)	6.7	8.5	4.7	4.0	3.2	4.0	4.0	4.0	4.0	4.0
GDP deflator (percent change)	2.6	7.8	4.2	4.0	-1.6	4.3	4.0	4.0	4.0	4.0
Poverty rate (in percent)	34.1	35.8	35.0	…	…	…	…	…	…	…
Investment and saving (in percent of GDP)										
Investment	33.8	29.4	27.0	28.1	22.5	30.1	24.5	25.1	25.7	26.2
National savings	18.0	14.6	16.1	17.7	11.8	20.5	14.4	16.5	18.1	19.1
Money and credit (end of period)										
Reserve money (percent change)	13.8	-0.8	32.3	-7.2	1.9	11.5	10.3	13.0	…	…
Broad money (percent change)	16.4	10.6	23.6	14.5	19.6	11.5	15.9	13.0	…	…
Velocity of broad money (end of period)	3.8	3.8	3.4	3.2	3.0	3.7	2.8	…	…	…
Commercial banks' 3-month lending rate (in percent)	19.1	17.7	20.7	…	18.5	…	…	…	…	…
Central government operations (in percent of GDP)										
Revenue and grants	20.9	21.2	22.1	21.3	22.4	22.2	23.2	23.8	24.2	24.5
Of which: tax revenue 1/	16.1	16.4	16.7	17.3	18.2	18.2	21.7	23.0	23.4	23.8
Expenditure 2/	28.6	26.2	25.0	23.4	24.0	24.8	25.5	26.0	26.2	26.3
Overall balance on a cash basis	-7.9	-4.6	-2.8	-2.1	-1.6	-2.6	-2.3	-2.3	-2.0	-1.8
Public and publicly-guaranteed debt (in percent of GDP)	40.2	39.7	41.8	44.9	44.9	43.5	43.5	45.1	44.0	44.2
Share of foreign currency debt (in percent)	88.9	87.4	87.1	88.1	88.1	86.4	86.4	86.3	85.4	83.9
External sector										
Exports of goods and services (in millions of U.S. dollars)	1,336	1,937	2,407	2,588	2,491	2,793	2,699	2,934	3,186	3,456
Imports of goods and services (in millions of U.S. dollars)	-3,683	-4,212	-4,797	-4,975	-4,896	-5,192	-5,135	-5,299	-5,536	-5,856
Exports of goods and services (percent change)	-24.0	45.0	24.3	7.5	3.5	7.9	8.3	8.7	8.6	8.5
Imports of goods and services (percent change)	-22.4	14.4	13.9	3.7	2.1	4.4	4.9	3.2	4.5	5.8
Current account balance (in percent of GDP)	-15.8	-14.8	-10.9	-10.4	-10.6	-9.6	-10.0	-8.6	-7.5	-7.0
FDI (net, in millions of U.S. dollars)	725	562	447	320	473	361	440	517	545	575
External debt (in percent of GDP)	57.8	65.4	72.8	77.7	77.7	76.0	76.0	78.0	77.3	76.1
o.w. public debt (in percent of GDP) 3/	35.7	34.7	36.4	39.5	39.5	37.6	37.6	38.9	37.6	37.1
Debt service ratio (in percent of exports of goods and services) 3/	5.4	4.7	4.2	9.8	9.6	15.1	15.6	10.0	5.9	6.1
Gross international reserves (in millions of U.S. dollars) 4/	2,004	1,866	1,869	1,614	1,799	1,536	1,467	1,574	1,810	2,022
Import cover 5/	5.7	4.7	4.6	3.7	4.2	3.5	3.3	3.4	3.7	3.9
Nominal effective exchange rate (percent change) 6/	-8.4	-2.6	0.3	…	-7.1	…	…	…	…	…
Real effective exchange rate (percent change) 6/	-7.5	1.3	6.9	…	-5.9	…	…	…	…	…
End-of-period exchange rate (dram per U.S. dollar)	378	363	385.8	…	405.5	…	…	…	…	…
Average exchange rate (dram per U.S. dollar)	363	374	372.5	…	400.8	…	…	…	…	…
Memorandum item:										
Population (in millions)	3.2	3.3	3.3	…	3.3	…	…	…	…	…

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

1/ From 2013, tax revenue includes social contribution.
2/ Including the gas subsidy in 2006–08.
3/ Based on public and publicly-guaranteed debt.
4/ Excluding the special privatization account (SPA), but including the Russian project loan.
5/ Gross international reserves in months of next year's imports of goods and services, including the SDR holdings.
6/ A positive sign denotes appreciation.

Table 2. Armenia: Balance of Payments, 2009–16
(In millions of U.S. dollars, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
	Act.	Act.	Act.	Prel.		Proj.		
Current account	-1,367	-1,373	-1,108	-1,056	-1,039	-899	-817	-826
Trade balance	-2,081	-2,033	-2,078	-2,073	-2,119	-2,060	-2,055	-2,112
Exports, fob	749	1,175	1,580	1,665	1,806	1,975	2,160	2,363
Imports, fob	-2,830	-3,208	-3,658	-3,738	-3,925	-4,035	-4,214	-4,475
Services (net)	-266	-242	-312	-332	-318	-305	-295	-288
Credits	587	762	827	826	892	959	1,026	1,093
Debits	-853	-1,004	-1,139	-1,158	-1,210	-1,265	-1,322	-1,381
Income (net)	167	339	559	629	669	711	753	780
Transfers (net)	814	563	723	719	728	756	780	795
Private	733	477	563	629	660	693	728	764
Official	81	86	160	91	68	63	52	31
Capital and financial account	1,560	1,058	1,050	965	889	995	1,017	1,076
Capital transfers (net)	89	108	96	104	54	95	101	103
Foreign direct investment (net)	725	562	447	473	440	517	545	575
Portfolio investment (net)	-4	11	-10	0	-10	-15	-25	-13
Public sector borrowing (net)	886	194	152	225	299	219	207	216
Disbursements	907	219	180	255	375	301	330	359
Amortization	-21	-25	-28	-30	-75	-82	-123	-143
Other capital (net)	-136	184	365	163	106	179	189	194
Errors and omissions	-39	18	-29	110	0	0	0	0
Overall balance	155	-298	-88	-18	-150	96	201	250
Financing	-155	298	88	18	66	-256	-261	-250
Gross international reserves (increase: -) 1/	-597	138	-4	70	333	-108	-236	-212
Use of Fund credit, net	442	160	92	-52	-267	-148	-25	-38
Purchases/disbursements	466	181	114	103	…	…	…	…
Repurchases/repayments	-23	-22	-23	-155	-267	-148	-25	-38
Exceptional financing 2/	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	84	160	60	0
Identified financing								
IMF ECF/EFF	0	0	0	0	84	0	0	…
Other	0	0	0	0	0	160	60	…
Memorandum items:								
Current account (in percent of GDP)	-15.8	-14.8	-10.9	-10.6	-10.0	-8.6	-7.5	-7.0
Trade balance (in percent of GDP)	-24.1	-21.9	-20.5	-20.9	-20.4	-19.7	-18.9	-18.0
Gross international reserves (end of period)	2,004	1,866	1,869	1,799	1,467	1,574	1,810	2,022
In months of next year's imports	5.7	4.7	4.6	4.2	3.3	3.4	3.7	3.9
Merchandise export growth, percent change	-32.7	57.0	34.4	5.4	8.5	9.3	9.4	9.4
Merchandise import growth, percent change	-25.0	13.4	14.0	2.2	5.0	2.8	4.4	6.2
Nominal external debt	4,878	6,145	7,252	7,628	7,881	8,125	8,466	8,825
o.w. public external debt	2,967	3,299	3,568	3,782	3,929	3,993	4,146	4,311
Nominal external debt stock (in percent of GDP)	57.8	65.4	72.8	77.7	76.0	78.0	77.3	76.1
External public debt-to-exports ratio (in percent)	222.1	170.3	148.2	151.8	145.6	136.1	130.1	124.7
External public debt service (in percent of exports)	5.4	4.7	4.2	9.8	15.1	9.7	5.8	6.0

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

1/ Gross international reserves include the SDR holdings.

Table 3. Armenia: Monetary Accounts, 2009–13
(In billions of drams, unless otherwise indicated)

	2009	2010	2011	2012				2013			
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Act.	Act.	Act.	Act.	Act.	Act.	Prel.	Prel.	Proj. 1/	Proj. 1/	Proj. 1/
Central Bank of Armenia											
Net foreign assets	571.6	422.4	465.0	404.0	424.1	427.2	467.2	436.3	387.9	377.9	383.0
Net international reserves 2/	595.8	500.6	521.2	465.3	490.5	495.4	538.7	509.1	461.0	454.9	462.6
Other	-80.5	-76.9	-56.3	-61.3	-66.4	-68.2	-71.5	-72.8	-73.1	-77.0	-79.5
Net domestic assets	-59.9	85.2	206.3	149.7	139.6	176.6	216.6	208.7	245.4	284.9	371.0
Claims on general government (net)	-152.5	-95.6	-66.7	-82.1	-94.1	-90.7	-93.3	-104.5	-109.0	-117.2	-91.2
Of which: central government (net)	-138.8	-76.7	-54.2	-64.3	-78.1	-73.7	-80.5	-91.7	-96.2	-104.4	-78.4
Claims on banks	66.2	57.4	137.0	98.0	108.6	126.3	152.9	153.0	158.3	167.2	174.7
KfW & IBRD	39.1	61.5	90.7	93.4	97.9	85.7	106.4	107.5	107.8	111.6	114.2
Monetary instruments (net) excluding CBA bills	27.1	-4.1	46.3	4.5	10.7	40.6	46.6	45.5	50.5	55.5	60.5
CBA bills 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	26.4	123.4	136.0	133.9	125.0	141.0	157.0	160.2	196.1	234.9	287.5
Reserve money	511.7	507.6	671.3	553.8	563.6	603.8	683.8	645.0	633.2	662.8	754.0
Currency issue	320.7	348.2	398.8	361.6	384.0	400.5	440.1	395.6	425.3	442.8	488.0
Deposits	191.0	159.4	272.5	192.2	179.6	203.3	243.7	249.4	207.9	220.0	266.0
Deposits in drams	42.3	61.4	169.9	160.2	140.4	156.7	157.7	165.0	168.7	171.9	174.2
Deposits in foreign currency	148.7	98.0	102.6	32.0	39.1	46.6	86.0	84.4	39.3	48.1	91.8
Banking system											
Net foreign assets	379.1	193.8	31.9	-43.1	-97.1	-92.4	-124.5	-137.0	-215.4	-230.4	-230.2
Net domestic assets	444.9	717.4	1,094.7	1,175.2	1,295.6	1,362.9	1,471.6	1,499.7	1,640.2	1,721.7	1,791.1
Claims on government (net)	-125.3	-50.9	-1.8	-14.0	-33.5	-20.0	17.0	6.0	9.4	13.3	45.0
Of which: claims on central government (net)	-111.6	-32.0	10.7	3.9	-17.4	-3.1	29.8	18.8	22.2	26.1	57.8
Claims on rest of the economy	728.3	922.9	1,251.2	1,339.6	1,479.2	1,508.5	1,587.9	1,619.8	1,750.8	1,823.4	1,856.1
Other items (net)	-158.0	-154.5	-154.7	-150.5	-150.1	-125.6	-133.4	-126.1	-120.0	-115.0	-110.0
Broad money	824.0	911.2	1,126.6	1,132.1	1,198.5	1,270.5	1,347.0	1,362.7	1,424.8	1,491.2	1,560.9
Currency in circulation	282.7	304.5	349.6	321.5	339.2	355.8	384.3	344.4	374.3	391.8	437.0
Deposits	541.3	606.7	777.0	810.6	859.4	914.6	962.7	1,018.3	1,050.5	1,099.5	1,123.8
Domestic currency	170.7	216.7	306.5	323.9	315.7	336.0	355.9	372.7	375.4	407.8	415.5
Foreign currency	370.6	389.9	470.5	486.6	543.7	578.6	606.8	645.6	675.0	691.6	708.3
Memorandum items:											
Exchange rate (in drams per U.S. dollar, end of period)	377.9	363.4	385.8	390.6	418.0	406.3	403.6	418.6	…	…	…
NIR, program definition, at program exchange rates (in millions of U.S. dollars)	1,019	892	794	810	778	810	830	766	713	730	753
12-month change in reserve money (in percent)	13.8	-0.8	32.3	9.4	8.3	5.8	1.9	16.5	12.4	9.8	10.3
12-month change in broad money (in percent)	16.4	10.6	23.6	21.7	23.9	24.3	19.6	20.4	18.9	17.4	15.9
12-month change in private sector credit (in percent)	14.0	26.7	35.6	34.2	28.3	30.9	26.9	20.9	18.4	20.9	16.9
Velocity of broad money (end of period)	3.8	3.8	3.4	3.4	3.2	3.1	3.0	3.0	2.9	2.8	2.8
Money multiplier	1.6	1.8	1.7	2.0	2.1	2.1	2.0	2.1	2.3	2.3	2.1
Dollarization in bank deposits 4/	68.5	64.3	60.6	60.0	63.3	63.3	63.0	63.4	64.3	62.9	63.0
Dollarization in broad money 5/	45.0	42.8	41.8	43.0	45.4	45.5	45.0	47.4	47.4	46.4	45.4
Currency in circulation in percent of deposits	52.2	50.2	45.0	39.7	39.5	38.9	39.9	33.8	35.6	35.6	38.9
Stock of foreign currency deposits (in millions of U.S. dollars) 1/	980.8	1,012.9	1,222.2	1,264.0	1,412.1	1,503.0	1,576.1	1,677.0	1,753.4	1,796.4	1,839.8
Banking system financing of the central government (cumulative) 6/	-86.4	79.6	42.7	-6.8	-28.1	-13.8	19.1	-11.0	-7.6	-3.8	28.0

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

1/ At the program exchange rate.
2/ Starting Dec-2011, some foreign assets previously in NIR were reclassified as other foreign assets.
3/ Following the agreement between the CBA and the Ministry of Finance, the issue of new CBA bills was terminated in 2008.
4/ Ratio of foreign currency deposits to total deposits (in percent).
5/ Ratio of foreign currency deposits to broad money (in percent).
6/ Discrepancy between the fiscal and monetary accounts in 2009Q3-Q4, 2010, and 2011 is exp lained by government lending to the economy through commercial banks.

Table 4. Armenia: Financial Soundness Indicators for the Banking Sector, 2009–13
(In percent, unless otherwise indicated)

	2009	2010	2011	2012				2013
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.
Capital adequacy								
Total regulatory capital to risk-weighted assets	28.3	22.2	18.3	17.8	16.8	17.2	16.8	16.4
Capital (net worth) to assets	21.0	20.4	17.2	17.8	16.5	16.3	15.9	15.5
Asset composition								
Sectoral distribution of loans (in billions of drams)								
Industry (excluding energy sector)	115.3	156.7	178.6	205.5	231.8	242.8	250.3	196.4
Energy sector	31.7	47.2	77.5	79.5	62.6	66.2	74.9	78.3
Agriculture	44.2	52.4	80.7	87.9	102.6	97.6	101.4	109.3
Construction	54.1	74.8	96.0	97.6	108.6	103.3	100.1	103.9
Transport and communication	15.4	25.7	50.9	52.2	42.2	50.5	48.3	50.0
Trade/commerce	145.5	184.8	275.7	298.0	327.3	321.9	321.0	341.6
Sectoral distribution of loans to total loans (percent of total)								
Industry (excluding energy sector)	16.5	17.7	14.0	15.2	14.3	15.6	15.5	11.6
Energy sector	4.5	5.3	6.1	5.9	3.9	4.2	4.6	4.6
Agriculture	6.3	5.9	6.3	6.5	6.3	6.3	6.3	6.5
Construction	7.7	8.4	7.5	7.2	6.7	6.6	6.2	6.1
Transport and communication	2.2	2.9	4.0	3.8	2.6	3.2	3.0	3.0
Trade/commerce	20.8	20.9	21.6	22.0	20.3	20.6	19.9	20.2
Foreign exchange loans to total loans	54.0	58.0	61.2	62.7	64.6	64.4	64.7	66.0
Asset quality								
Nonperforming loans (in billions of drams)	36.3	28.6	43.7	66.4	66.1	78.2	58.4	91.9
Watch (up to 90 days past due)	14.9	11.3	18.8	43.1	32.0	44.1	26.5	61.4
Substandard (91-180 days past due)	10.1	11.3	15.6	12.2	23.1	18.5	19.0	14.4
Doubtful (181-270 days past due)	11.3	6.1	9.3	11.1	11.0	15.6	12.8	16.1
Loss (>270 days past due)	26.2	34.6	45.2	65.8	75.5	74.4	77.4	87.8
Nonperforming loans to gross loans	4.8	3.1	3.4	4.9	4.1	5.0	3.6	5.5
Provisions to nonperforming loans	46.7	56.7	55.4	43.2	47.9	44.3	55.1	40.7
Spread between highest and lowest rates of interbank borrowing in AMD	2.5	4.0	1.5	3.0	3.0	3.5	1.0	0.8
Spread between highest and lowest rates of interbank borrowing in foreign currency	3.0	5.0	5.3	2.5	5.0	9.5	9.5	2.0
Earnings and profitability								
ROA (profits to period average assets)	0.7	2.2	1.9	1.5	1.5	2.2	1.1	0.6
ROE (profits to period average equity)	3.4	10.2	9.8	8.7	8.6	12.9	11.5	4.0
Interest margin to gross income	42.2	43.8	42.0	45.5	43.1	42.0	40.6	36.5
Interest income to gross income	78.3	77.0	78.3	82.7	81.6	80.9	80.0	80.5
Noninterest expenses to gross income	40.7	39.2	36.4	33.5	34.1	33.3	34.2	32.6
Liquidity								
Liquid assets to total assets	34.2	29.5	27.9	26.6	24.4	25.3	25.6	26.1
Liquid assets to total short-term liabilities	142.1	131.5	120.8	126.4	118.1	127.6	126.1	136.1
Customer deposits to total (non-interbank) loans	96.4	87.2	91.5	85.5	85.0	89.2	92.6	96.1
Foreign exchange liabilities to total liabilities	67.6	64.9	63.3	63.4	65.6	65.9	64.9	66.4
Sensitivity to market risk								
Gross open positions in foreign exchange to capital	3.4	2.9	3.0	3.1	2.9	2.5	3.8	3.0
Net open position in FX to capital	1.9	-0.2	-0.9	-0.9	-0.2	1.2	1.6	1.3

Source: Central Bank of Armenia.

Table 5. Armenia: Central Government Operations, 2009–16
(in billions of drams)

	2009	2010	2011	2012		2013		2014	2015	2016
	Act.	Act.	Act.	EBS/12/150	Prel.	EBS/12/150	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	655.6	734.3	834.8	887.7	892.6	1006.5	1010.3	1132.5	1264.4	1408.7
Total revenue	634.4	706.1	776.6	872.5	875.7	990.0	992.3	1118.7	1250.4	1394.7
Tax revenues 1/	505.9	568.9	629.6	721.5	723.4	826.2	943.9	1095.8	1225.3	1367.1
VAT	239.2	278.1	301.5	328.9	340.4	358.0	371.9	412.2	457.5	507.9
Profits, simplified and presumptive	104.9	99.7	143.8	176.2	164.5	193.1	183.8	209.8	240.7	269.2
Personal income tax	60.2	73.9	81.2	93.1	91.7	132.2	241.2	300.3	334.7	373.1
Customs duties	25.1	29.4	34.7	39.7	41.3	43.2	45.1	52.4	52.3	57.4
Other	76.5	87.8	68.4	83.7	85.6	99.8	101.8	121.1	140.1	159.6
Social contributions	102.9	105.3	123.4	130.1	129.1	141.5	26.1	0.0	0.0	0.0
Other revenue	25.6	31.8	23.6	20.9	23.2	22.3	22.3	22.9	25.1	27.6
Grants	21.2	28.2	58.2	15.3	16.9	16.5	18.0	13.8	13.9	14.0
Budget support	10.3	5.4	28.6	9.3	10.5	5.9	6.4			
Project grants	9.0	22.8	29.6	6.0	6.4	10.6	11.6			
Total expenditure	897.1	906.6	943.1	974.3	956.3	1126.1	1109.3	1241.1	1370.9	1512.2
Expense	712.0	727.9	788.7	856.8	852.4	931.0	929.9	1038.4	1146.0	1265.4
Wages	83.5	82.5	86.5	93.4	93.5	109.7	118.3	129.6	142.2	156.1
Social Contributions	4.6	4.5	4.7	5.4	4.8	0.0	0.0	0.0	0.0	0.0
Pension Co-payment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.7	26.7	32.6
Subsidies	18.4	17.4	18.3	22.5	18.6	19.5	20.1	32.0	34.0	37.3
Interest	16.2	30.2	35.2	44.7	40.2	52.5	52.5	60.1	68.3	80.0
Social allowances and pensions	239.9	241.7	255.1	287.6	287.4	302.0	302.3	340.7	384.3	421.8
Pensions/social security benefits	176.0	176.8	186.6	196.8	197.5	197.6	197.6	221.2	242.7	266.4
Social assistance benefits	64.0	64.9	68.5	78.8	89.9	84.9	85.2	107.5	129.5	142.2
Employer social benefits	0.0	0.0	0.0	12.0	12.1	19.5	19.5	12.0	12.0	12.0
Goods and services	150.7	155.6	166.7	169.4	198.9	170.0	192.7	203.4	215.2	236.2
Grants	62.0	66.6	69.2	76.1	71.4	75.8	77.8	77.8	77.8	85.3
Other expenditure	136.6	129.5	152.9	157.8	137.6	201.4	166.4	194.8	224.3	248.7
Transactions in nonfinancial assets	185.1	178.7	154.4	117.5	103.9	195.1	179.4	202.7	224.9	246.8
Acquisition of nonfinancial assets	195.7	179.2	157.7	119.3	106.6	195.1	179.4	202.7	224.9	246.8
Disposals of nonfinancial assets	10.6	0.5	3.3	1.8	2.7	0.0	0.0	0.0	0.0	0.0
			0.0							
Overall balance (above-the-line)	-241.5	-172.3	-108.3	-86.6	-63.8	-119.6	-99.0	-108.6	-106.5	-103.5
Of which: Unidentified Revenue Measures 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-20.7	-26.7	-32.6
Statistical discrepancy	-6.2	13.2	2.1	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Overall balance (below-the-line)	-247.7	-159.1	-106.2	-86.6	-63.2	-119.6	-99.0	-108.6	-106.5	-103.5
Financing	247.7	159.1	106.2	86.6	63.2	119.6	99.0	108.6	106.5	103.5
Domestic financing	-108.5	96.5	62.7	0.9	6.8	-10.8	52.0	31.3	20.7	58.7
Banking system 3/	-40.0	95.6	55.1	-1.1	20.1	-34.4	28.0	15.1	3.0	36.2
CBA	-54.4	62.1	22.4	-23.5	-26.3	-76.0	2.1	-13.6	-28.2	-11.5
Commercial Banks	14.4	33.5	32.7	22.4	46.4	41.6	25.9	28.7	31.2	47.6
Nonbanks	-68.5	0.9	7.6	6.1	-13.2	20.5	23.9	16.2	17.7	22.6
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T-Bills	8.7	5.5	4.3	-2.5	-24.6	2.6	6.0	6.6	7.3	11.1
Promissory note/other	-3.2	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-74.0	-2.6	3.4	8.6	11.4	17.9	17.9	9.5	10.5	11.5
External financing	356.2	62.5	43.5	85.7	56.3	67.8	47.1	34.1	37.8	44.8
Gross inflow 4/	395.6	105.3	89.4	141.6	119.9	182.1	157.3	137.1	146.5	151.2
Amortization due	-6.3	-9.7	-10.9	-20.2	-27.9	-75.0	-70.9	-65.0	-66.8	-60.5
Net lending	-33.1	-33.1	-35.1	-35.7	-35.6	-39.3	-39.3	-38.1	-41.8	-45.9
Unidentified financing	…	…	…	…	…	62.6	0.0	43.3	48.1	…
Memorandum items:										
Nominal GDP (in billion of drams)	3,142	3,460	3,776	4,167	3,982	4,535	4,351	4,766	5,229	5,740
Program balance 5/	-354.8	-124.4	-137.9	-111.3	-87.4	…	-120.4	…	…	…
Debt-creating fiscal balance 6/	-274.6	-205.4	-143.4	-122.2	-99.4	-158.9	-138.3	-146.8	-148.4	-149.4
T-bill issuance	45.4	30.2	30.3	30.8	30.8	52.0	30.2	…	…	…

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

1/ From 2013, tax revenue includes social contribution.
2/ Needed to offset pension reform costs.
3/ Discrepancy between the fiscal and monetary accounts in 2009Q3-Q4, 2010, and 2011 is explained by government lending to the economy through commercial banks.
4/ Includes IMF budget support.
5/ The program balance is measured as below-the-line overall balance minus net lending, except from 2010 to 2011Q1, where project financing is also subtracted.
6/ Sum of overall balance (above-the-line) and external net lending.

Table 6. Armenia: Central Government Operations, 2009–16
(In percent of GDP, unless otherwise specified)

	2009	2010	2011	2012		2013		2014	2015	2016
	Act.	Act.	Act.	EBS/12/150	Prel.	EBS/12/150	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	20.9	21.2	22.1	21.3	22.4	22.2	23.2	23.8	24.2	24.5
Total revenue	20.2	20.4	20.6	20.9	22.0	21.8	22.8	23.5	23.9	24.3
Tax revenues 1/	16.1	16.4	16.7	17.3	18.2	18.2	21.7	23.0	23.4	23.8
VAT	7.6	8.0	8.0	7.9	8.5	7.9	8.5	8.6	8.7	8.8
Profits, simplified and presumptive	3.3	2.9	3.8	4.2	4.1	4.3	4.2	4.4	4.6	4.7
Personal income tax	1.9	2.1	2.2	2.2	2.3	2.9	5.5	6.3	6.4	6.5
Customs duties	0.8	0.8	0.9	1.0	1.0	1.0	1.0	1.1	1.0	1.0
Other	2.4	2.5	1.8	2.0	2.2	2.2	2.3	2.5	2.7	2.8
Social contributions	3.3	3.0	3.3	3.1	3.2	3.1	0.6	0.0	0.0	0.0
Other revenue	0.8	0.9	0.6	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Grants	0.7	0.8	1.5	0.4	0.4	0.4	0.4	0.3	0.3	0.2
Budget support	0.3	0.2	0.8	0.2	0.3	0.1	0.1			
Project grants	0.3	0.7	0.8	0.1	0.2	0.2	0.3			
Total expenditure	28.6	26.2	25.0	23.4	24.0	24.8	25.5	26.0	26.2	26.3
Expense	22.7	21.0	20.9	20.6	21.4	20.5	21.4	21.8	21.9	22.0
Wages	2.7	2.4	2.3	2.2	2.3	2.4	2.7	2.7	2.7	2.7
Social Contributions	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Pension Co-payment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.5	0.6
Subsidies	0.6	0.5	0.5	0.5	0.5	0.4	0.5	0.7	0.7	0.7
Interest	0.5	0.9	0.9	1.1	1.0	1.2	1.2	1.3	1.3	1.4
Social allowances and pensions	7.6	7.0	6.8	6.9	7.2	6.7	6.9	7.1	7.3	7.3
Pensions/social security benefits	5.6	5.1	4.9	4.7	5.0	4.4	4.5	4.6	4.6	4.6
Social assistance benefits	2.0	1.9	1.8	1.9	2.3	1.9	2.0	2.3	2.5	2.5
Employer social benefits	0.0	0.0	0.0	0.3	0.3	0.4	0.4	0.3	0.2	0.2
Goods and services	4.8	4.5	4.4	4.1	5.0	3.7	4.4	4.3	4.1	4.1
Grants	2.0	1.9	1.8	1.8	1.8	1.7	1.8	1.6	1.5	1.5
Other expenditure	4.3	3.7	4.0	3.8	3.5	4.4	3.8	4.1	4.3	4.3
Transactions in nonfinancial assets	5.9	5.2	4.1	2.8	2.6	4.3	4.1	4.3	4.3	4.3
Acquisition of nonfinancial assets	6.2	5.2	4.2	2.9	2.7	4.3	4.1	4.3	4.3	4.3
Disposals of nonfinancial assets	0.3	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Overall balance (above-the-line)	-7.7	-5.0	-2.9	-2.1	-1.6	-2.6	-2.3	-2.3	-2.0	-1.8
Of which: Unidentified Revenue Measures 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	-0.5	-0.6
Statistical discrepancy	-0.2	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (below-the-line)	-7.9	-4.6	-2.8	-2.1	-1.6	-2.6	-2.3	-2.3	-2.0	-1.8
Financing	7.9	4.6	2.8	2.1	1.6	2.6	2.3	2.3	2.0	1.8
Domestic financing	-3.5	2.8	1.7	0.0	0.2	-0.2	1.2	0.7	0.4	1.0
Banking system 3/	-1.3	2.8	1.5	0.0	0.5	-0.8	0.6	0.3	0.1	0.6
CBA	-1.7	1.8	0.6	-0.6	-0.7	-1.7	0.0	-0.3	-0.5	-0.2
Commercial Banks	0.5	1.0	0.9	0.5	1.2	0.9	0.6	0.6	0.6	0.8
Nonbanks	-2.2	0.0	0.2	0.1	-0.3	0.5	0.6	0.3	0.3	0.4
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T-Bills	0.3	0.2	0.1	-0.1	-0.6	0.1	0.1	0.1	0.1	0.2
Promissory note/other	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-2.4	-0.1	0.1	0.2	0.3	0.4	0.4	0.2	0.2	0.2
Of which: financed with the Russian loan	-2.5	0.1	0.1	0.1	0.3	0.0	0.0	0.0	0.0	0.0
External financing	11.3	1.8	1.2	2.1	1.4	1.5	1.1	0.7	0.7	0.8
Gross inflow 4/	12.6	3.0	2.4	3.4	3.0	4.0	3.6	2.9	2.8	2.6
Of which: Russian project loan	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Amortization due	-0.2	-0.3	-0.3	-0.5	-0.7	-1.7	-1.6	-1.4	-1.3	-1.1
Net lending	-1.1	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.8	-0.8	-0.8
Unidentified financing	…	…	…	0.0	…	1.4	0.0	0.9	0.9	0.0
Memorandum items:										
Nominal GDP (in billion of drams)	3,142	3,460	3,776	4,167	3,982	4,535	4,351	4,766	5,229	5,740
Program balance 5/	-11.3	-3.6	-3.7	-2.7	-2.2	…	-2.8	…	…	…
Debt-creating fiscal balance 6/	-8.7	-5.9	-3.8	-2.9	-2.5	-3.5	-3.2	-3.1	-2.8	-2.6
T-bill issuance	1.4	0.9	0.8	0.7	0.8	1.1	0.7	…	…	…

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

1/ From 2013, tax revenue includes social contribution.
2/ Needed to offset pension reform costs.
3/ Discrepancy between the fiscal and monetary accounts in 2009Q3-Q4, 2010, and 2011 is explained by government lending to the economy through commercial banks.
4/ Includes IMF budget support.
5/ The program balance is measured as below-the-line overall balance minus net lending, except from 2010 to 2011Q1, where project financing is also subtracted.
6/ Sum of overall balance (above-the-line) and external net lending.

Table 7. Armenia: Medium-Term Macroeconomic Framework, 2009–18
(In percent of GDP, unless otherwise specified)

Table 7. Armenia: Medium-Term Macroeconomic Framework, 2009–18
(In percent of GDP, unless otherwise specified)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Act.	Act.	Act.	Prel.			Projections			
National income and prices										
Real GDP (percent change)	-14.1	2.2	4.7	7.2	5.1	5.3	5.5	5.5	5.5	5.5
Gross domestic product (in millions of U.S. dollars)	8,648	9,260	10,138	9,933	10,365	10,452	10,883	11,714	12,723	13,948
Gross national income per capita (in U.S. dollars)	2,713	2,942	3,267	3,219	3,356	3,389	3,526	3,778	4,082	4,451
CPI inflation, period average (percent change)	3.5	7.3	7.7	2.5	4.0	4.0	4.0	4.0	4.0	4.0
Investment and saving										
Investment	33.8	29.4	27.0	22.5	24.5	25.1	25.7	26.2	26.7	26.7
Private	27.9	24.3	22.9	19.9	20.4	20.9	21.4	21.9	22.4	22.4
Public	5.9	5.2	4.1	2.6	4.1	4.3	4.3	4.3	4.3	4.3
National savings	18.0	14.6	16.1	11.8	14.4	16.5	18.1	19.1	20.0	20.4
Private	19.8	14.4	14.8	10.8	12.6	14.5	15.9	16.6	17.3	17.5
Public	-1.8	0.2	1.2	1.0	1.8	2.0	2.3	2.5	2.7	2.8
Central government operations										
Revenue and grants	20.9	21.2	22.1	22.4	23.2	23.8	24.2	24.5	24.7	24.9
Of which: tax revenue	16.1	16.4	16.7	18.2	21.7	23.0	23.4	23.8	24.1	24.2
grants	0.7	0.8	1.5	0.4	0.4	0.3	0.3	0.2	0.2	0.1
Expenditure	28.6	26.2	25.0	24.0	25.5	26.0	26.2	26.3	26.3	26.4
Current expenditure	22.7	21.0	20.9	21.4	21.4	21.8	21.9	22.0	22.0	22.1
Capital expenditure	5.9	5.2	4.1	2.6	4.1	4.3	4.3	4.3	4.3	4.3
Overall balance on a cash basis	-7.9	-4.6	-2.8	-1.6	-2.3	-2.3	-2.0	-1.8	-1.6	-1.5
Domestic financing	-3.5	2.8	1.7	0.2	1.2	0.7	0.4	1.0	1.1	0.6
External financing	11.3	1.8	1.2	1.4	1.1	0.7	0.7	0.8	0.5	0.9
Unidentified financing	…	…	…	…	0.0	0.9	0.9	0.0	0.0	0.0
Public and publicly-guaranteed debt	40.2	39.7	41.8	44.9	43.5	45.1	44.0	44.2	43.1	42.6
External sector										
Exports of goods and services	15.4	20.9	23.7	25.1	26.0	28.1	29.3	29.5	29.5	29.2
Imports of goods and services	42.6	45.5	47.3	49.3	49.5	50.7	50.9	50.0	48.9	47.4
Current account (in percent of GDP)	-15.8	-14.8	-10.9	-10.6	-10.0	-8.6	-7.5	-7.0	-6.7	-6.3
Current account (in millions of U.S. dollars)	-1,367	-1,373	-1,108	-1,056	-1,039	-899	-817	-826	-848	-877
Capital and financial account (in millions of U.S. dollars)	1,560	1,058	1,050	965	889	995	1,017	1,076	1,116	1,152
Of which: direct foreign investment	725	562	447	473	440	517	545	575	607	640
public sector disbursements	907	219	180	255	375	301	330	359	387	413
Change in gross international reserves (in millions of U.S. dollars) 1/	-597	138	-4	70	333	-108	-236	-212	-216	-208
Arrears and debt relief (in millions of U.S. dollars)	0	0	0	0	0	0	0	0	0	0
Financing gap (in millions of U.S. dollars)	0	0	0	0	84	160	60	0	0	0
Of which: IMF	0	0	0	0	84	0	0	0	0	0
Other	0	0	0	0	0	160	60	0	0	0
Gross international reserves in months of imports	5.7	4.7	4.6	4.2	3.3	3.4	3.7	3.9	4.1	4.1
Memorandum items:										
Debt-creating fiscal balance 2/	-8.7	-5.9	-2.2	-2.5	-3.2	-3.1	-2.8	-2.6	-2.4	-2.3

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

1/ A negative figure indicates an increase.

2/ Sum of overall balance (above-the-line) and external net lending.

Table 8. Indicators of Capacity to Repay the Fund, 2011–19 1/

			Projections						
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fund obligations based on existing credit (in millions of SDRs)									
Principal	14.4	101.0	175.5	98.1	16.4	25.3	34.5	39.5	38.9
Charges and interest	7.9	5.4	1.6	1.8	1.5	1.3	1.1	0.9	0.7
Fund obligations based on existing and prospective credit (in millions of SDRs)									
Principal	14.4	101.0	175.5	98.1	16.4	25.3	34.5	44.2	48.9
Charges and interest	7.9	7.9	2.2	2.1	1.8	1.7	1.5	1.3	1.0
Total obligations based on existing and prospective credit									
In millions of SDRs	22.4	108.9	177.7	100.2	18.3	27.0	36.0	45.4	49.9
In millions of U.S. dollars	35.3	166.8	269.9	151.6	27.6	40.6	54.2	68.4	75.1
In percent of gross international reserves	1.9	9.3	18.4	9.6	1.5	2.0	2.4	2.8	2.7
In percent of exports of goods and services	1.5	6.7	10.0	5.2	0.9	1.2	1.4	1.7	1.7
In percent of debt service 2/	33.6	66.0	65.5	54.4	15.6	23.5	30.2	37.4	40.7
In percent of GDP	0.3	1.7	2.6	1.5	0.3	0.3	0.4	0.5	0.5
In percent of quota	24.3	118.3	193.2	108.9	19.8	29.3	39.2	49.4	54.2
Outstanding Fund credit 2/									
In millions of SDRs	539.0	505.0	379.7	281.7	265.2	240.0	205.4	161.3	112.3
In billions of U.S. dollars	0.9	0.8	0.6	0.4	0.4	0.4	0.3	0.2	0.2
In percent of gross international reserves	45.5	43.0	39.3	27.1	22.1	17.9	13.8	9.9	6.1
In percent of exports of goods and services	35.4	31.0	21.4	14.5	12.6	10.5	8.2	6.0	3.8
In percent of debt service 2/	810.6	306.0	139.9	152.9	227.2	209.3	172.2	132.7	91.8
In percent of GDP	8.4	7.8	5.6	4.1	3.7	3.1	2.4	1.7	1.1
In percent of quota	585.8	548.9	412.8	306.2	288.3	260.8	223.3	175.3	122.1
Net use of Fund credit (in millions of SDRs)	58.0	-34.0	-120.5	-98.1	-16.4	-25.3	-34.5	-44.2	-48.9
Disbursements	72.4	67.0	55.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	14.4	101.0	175.5	98.1	16.4	25.3	34.5	44.2	48.9
Memorandum items:									
Nominal GDP (in millions of U.S. dollars)	10,138.1	9,932.7	10,365.4	10,452.0	10,883.4	11,713.7	12,722.5	13,948.1	15,156.7
Exports of goods and services (in millions of U.S. dollars)	2,406.9	2,491.1	2,698.6	2,933.9	3,186.1	3,456.2	3,752.7	4,075.3	4,458.2
Gross international reserves (in millions of U.S. dollars)	1,869.5	1,799.4	1,466.8	1,574.3	1,810.4	2,022.4	2,238.1	2,446.5	2,752.1
Debt service (in millions of U.S. dollars) 2/	105.0	252.8	412.2	278.7	176.2	172.6	179.6	182.9	184.3
Quota (in millions of SDRs)	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0

Source: Fund staff estimates and projections.

1/ Indicators cover both GRA and ECF credit.

2/ Total debt service includes IMF obligations.

Table 9. Armenia: External Financing Requirements and Sources, 2013–15
(in millions of U.S. dollars unless otherwise indicated)

	2013	2014	2015
	Projections		
Gross Financing Requirements	1,777	1,993	1,980
External current account deficit (excl. transfers) (excluding official transfers)	1,768	1,655	1,596
Debt amortization and Fund repurchases	342	231	123
Gross international reserve accumulation	-333	108	236
Available financing	1,693	1,833	1,920
Capital Account and Current Transfers	1,693	1,833	1,920
of which: Foreign Direct Investment	440	517	545
Public Borrowing 1/	375	301	207
Private transfers	660	693	
Commercial banks net flows	170	179	
Financing gap	84	160	60
Exceptional Financing	84	160	60
Of which: IMF budget support	0	0	0
IMF BOP support	84	0	0
Unidentified	0	160	60
Memorandum item:			
Current Account deficit, percent of GDP	-10.0	-8.6	-7.5
Fiscal balance, percent of GDP	-2.8	-2.3	-2.0
Net domestic financing, percent of GDP	1.2	0.7	0.7
Gross Reserves	1467	1574	1810
In months of prospective imports	3.3	3.4	3.7

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

1/ Includes $72 million of planned DPO with World Bank in 2013.

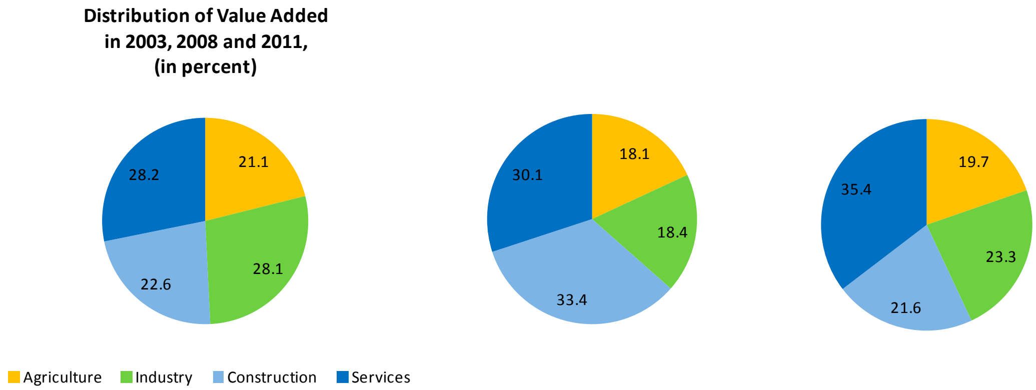
Table 10. Fund Disbursements and Timing of Review Under a Three-year EFF/ECF Blend

Date of Availability	Conditions	Amount (millions of SDRs)			Percent of Quota		
		ECF	EFF	Total	ECF	EFF	Total
June 28, 2010	Board approval of the arrangement	18.70	17.50	36.20	20.33	19.02	39.35
September 30, 2010	Observance of end-June 2010 performance criteria and completion of first review	18.70	17.50	36.20	20.33	19.02	39.35
March 30, 2011	Observance of end-December 2010 performance criteria and completion of second review	18.70	17.50	36.20	20.33	19.02	39.35
September 30, 2011	Observance of end-June 2011 performance criteria and completion of third review	18.70	17.50	36.20	20.33	19.02	39.35
March 30, 2012	Observance of end-December 2011 performance criteria and completion of fourth review	16.00	17.50	33.50	17.39	19.02	36.41
September 30, 2012	Observance of end-June 2012 performance criteria and completion of fifth review	16.00	17.50	33.50	17.39	19.02	36.41
March 30, 2013	Observance of end-December 2012 performance criteria and completion of sixth review	26.60	28.40	55.00	28.91	30.87	59.78
	Total	133.40	133.40	266.80	145.00	145.00	290.00

Source: Fund staff estimates and projections.

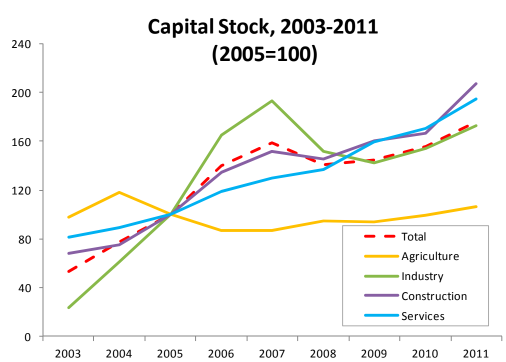
Annex I. Sources of Growth[1]

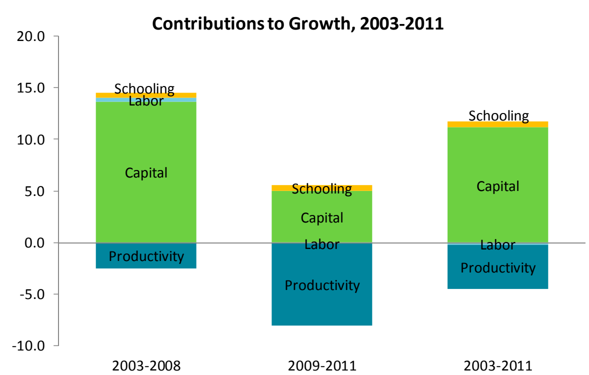
During the 2000s, Armenia registered high growth, fuelled by a construction boom. During 2003–08, the share of the construction sector (including real estate) in value added increased by 50 percent. Since 2009, the sector has contracted substantially, and industry and services have become the main drivers of growth.



A standard growth accounting exercise[2], based on official data, finds that:

- **Capital accumulation was the main growth driver during 2003–11.** In the early 2000s, the capital stock underwent transition from Soviet-era assets, with high rates of depreciation and some replacement. From 2005, capital accumulation was strong and consistent with a fast-growth emerging market economy. Until 2008, this accumulation was mainly in construction. From 2009 onwards, investment took place in other sectors, namely agriculture and industry.





- **Labor remained stable, although there was large-scale emigration from Armenia.** The quality of labor, measured by the years of schooling, appears to have remained relatively constant during the 2000s and was not a major contributor to growth. Stability of the labor

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[1] Prepared by Jose Gijon and Armineh Manookian.

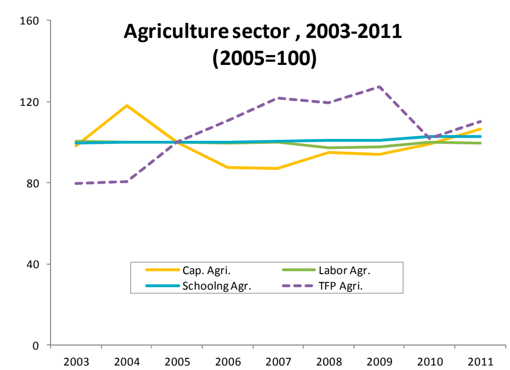
[2] A Cobb-Douglas production function was used, with constant returns to scale and perfect competition. Output in each sector is given by Yi=Ai Ki $^{\alpha i}$ Hi$^{(1-\alpha i)}$, where Ki and Hi are physical and human capital stocks in sector i and Ai represents productivity.

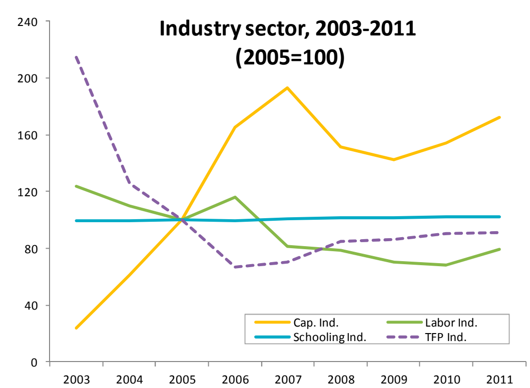
factor during years of high growth may have reflected a shift of labor from some sectors (e.g., agriculture) to others (construction), without significant productivity gains.

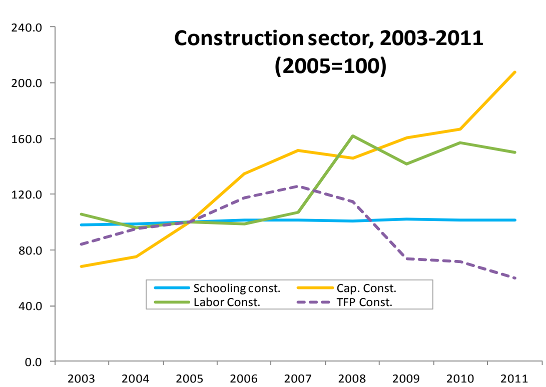
- **Total factor productivity (TFP) appears to have been declining.** The results show stable TFP during the early 2000s and a fall from 2009–11, when capital continued to grow, although overall growth was negative in 2009 and low in 2010. Rapid capital accumulation in a single sector, with stagnant labor, may explain the modest growth in TFP during 2003–08. For 2009–11, the results may reflect crisis-response measures and investments in mining.

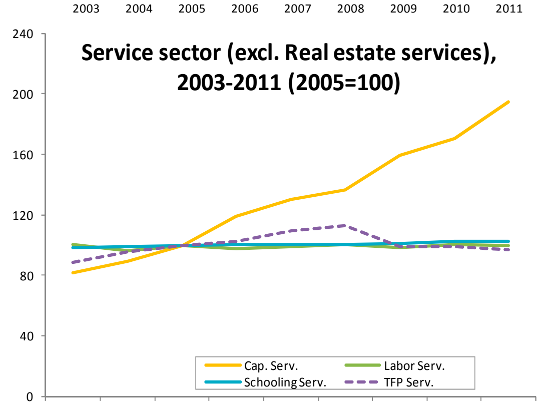
The results for the decade suggest that the rapid rise in the capital stock did not translate into significant TFP growth. While data limitations are a significant factor, the results do seem consistent with an increase in the capital stock concentrated in real estate. The performance of TFP may be also related to business climate constraints (see Annex II of Country Report 13/34).

The medium-term structural reform agenda should focus on productivity-enhancing policies. Weaknesses in TFP could indicate a misallocation of factors or institutional bottlenecks; these, in turn, will affect long-term growth. Policies should foster a reallocation of investment across sectors, higher resources devoted to education and skills development, and improvements in the business environment. Recent business environment improvements may explain why productivity has been increasing in agriculture and industry in recent years. Further reforms and gains in education will help strengthen labor productivity, helping boost stagnant or declining productivity in the non-tradable sector (services and construction). Without progress, Armenia’s growth potential is likely to remain at 4½–5 percent and may weaken.









Annex II. Status of Implementation of FSAP Recommendations

	Recommendation	Timeframe	Status
High priority			
	Introduce liquidity coverage ratios for foreign currency	Immediate	Implemented, effective January 2013. Structural Benchmark for the Fifth Review
	Amend the law to require banks to immediately report changes to operations that would have a material adverse impact on the banks	Immediate	Implemented, December 2012. Structural Benchmark for the Sixth Review
	Develop a program to gather information and monitor the hedging ability of borrowers	Immediate	Implemented, June 2012. Structural Benchmark for the Fifth Review
	Introduce use of Pillar 2 supervisory techniques	Medium term	In progress. The minimum legal requirements for Pillar 2 are in place, but the FSAP recommended a more frequent (annual) structured dialogue with bank boards and management on capital adequacy
	Develop sound framework for the investment policy and asset manager regulations for pension funds	Medium term	In progress. Part of this recommendation was included and implemented as a Structural Benchmark for the Sixth Review
	Develop pension regulation capacity at the CBA	Medium term	In progress.
	Assess reform transition cost of pension reform	Medium term	In progress. Initial estimate was completed as a Structural Benchmark for the Sixth Review.
Medium priority			
	Amend legislation to establish clearer and earlier triggers for a provisional administrator to conduct resolution operations	Medium term	In progress.
	Amend Deposit Guarantee Fund (DGF) legislation to allow funds to be used in resolution operations and to shorten the depositor pay-out period	Medium term	In progress. The DGF was assessed by external consultants (from USAID, the German Bankers Association, and the Hungarian DGF) in 2012.
	Revise DGF governance structure to limit the participation of active bankers	Medium term	In progress.
	Amend the Civil Code and other relevant laws to simplify and accelerate registration and execution of collateral	Medium term	In progress. After 2012 changes to the property registration system, the authorities are assessing whether further changes are needed to streamline collateral execution.

Appendix. Letter of Intent

Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Yerevan, June 5, 2013

Dear Madam Lagarde:

1. **Significant progress has been achieved under the EFF/ECF-supported program**, which was approved by the IMF Executive Board in June 2010 and recently extended by three months to September 27, 2013. Growth has been restored, following a sharp decline in 2009, and both headline and core inflation have remained below 4 percent for well over a year. Substantial fiscal adjustment has taken place, contributing to significant external consolidation. Credit growth has been robust, and the banking sector remains well capitalized and robust to shocks. Important structural reforms have also taken place in monetary and financial policy, tax policy and administration, pension reforms, and regulatory policy and the business environment. We are grateful for the policy advice and financial and technical assistance that the IMF has provided to Armenia.

2. **We have concluded a cycle of parliamentary elections in May 2012 and presidential elections in February 2013**. The new government was appointed in late-April/early-May, presented its economic program to the National Assembly on May 20, and was approved by the National Assembly on May 23. Our policies for 2013 and beyond will continue to aim to maintain macroeconomic stability, facilitate further adjustment, and accelerate structural reforms to achieve strong, sustainable and inclusive growth. We have recently initiated discussions with the IMF staff on a successor arrangement to support our program. We hope to conclude these and present a request for Fund support in the very near future.

A. Recent Economic Developments

3. **Armenia's economic performance strengthened in 2012 and the first quarter of 2013**, broadly in line with the EFF/ECF-supported program:

- Growth reached 7.2 percent in 2012, led by agriculture, agro-processing, energy, mining, and services. Construction made a positive contribution in 2012, with growth in the sector of 0.5 percent, after a decline by 12.5 percent in 2011. Inflation has remained subdued, reaching 3.4 percent (y-o-y) in March. The monthly economic activity index suggests that GDP growth remained strong during the first quarter of 2013, led by manufacturing and services.

- Total and foreign currency deposits grew by 24 and 29 percent, respectively, in 2012, and credit growth was 27 percent last year, led by expansion of FX lending of 28 percent (constant ER basis). Deposit growth remained strong in the first quarter of 2013 (26 percent on an annual basis), but credit growth slowed somewhat to 22 percent on account of slower FX lending. The financial system remains sound, with the capital adequacy ratio at end-February 2013 at 16½—comfortably above the minimum requirements—and nonperforming loans at manageable levels (5½ percent of total loans).

- We have kept the policy rate steady at 8 percent since September 2011 and have narrowed the corridor around the policy rate from 600 to 300 basis points in two steps since June. In line with the EFF/ECF-supported program and FSAP Update recommendations, bank foreign currency liquidity ratios became effective in January. We reduced the reserve requirement for dram deposits from 8 to 4 percent in April (with enforcement from June 12), as part of our efforts to reduce of dollarization of the banking system.

- The dram remained stable in the second half of 2012, and the CBA moved to build its reserves buffer. Accordingly, the end-December 2012 NIR target was exceeded by $78 million. The CBA responded to large-scale seasonal foreign exchange purchases by a major energy importer in a thin market in March 2013, selling $44 million to ease market pressures. Since then, pressures have eased, and the CBA has purchased dollars. In order to preserve our reserve buffer, we are committed to recouping the March sales during the course of 2013.

- The fiscal deficit was significantly lower than expected in 2012, 1.6 percent of GDP, compared with 3.1 percent of GDP in the budget and 2.1 percent projected at the time of the Fifth Reviews. This reflected sound revenue performance, as well as spending restraint and delays in large capital projects (notably contracting for the North-South highway). The 2013 budget envisaged a deficit equivalent to 2.6 percent of GDP, with delays in capital spending being overcome, and in line with our 2013–15 medium-term framework, which aims to reach a deficit level of 2 percent of GDP by 2015.

- The external current account deficit declined by 0.3 percentage points of GDP in 2012. Despite a fall in metals prices, exports grew strongly, as did remittances, but this was offset by slower growth of much larger imports. Bank inflows and FDI picked up late in the year. External borrowing also increased. Remittances and exports continued to grow substantially in the first months of 2013, particularly exports of metals and minerals and processed food products. Growth of imports, led by energy products, limited the improvement of the trade balance.

- The national flag carrier airline, Armavia, succumbed to significant financial difficulties and ceased operations in April. Its outstanding loans from local banks were mostly well-collateralized, which should help to contain impacts. However, there will be impacts on the company's employees and suppliers (e.g., catering firms).

B. Prospects and Policies for 2013

4. **We remain committed to the policy objectives described in our letter of intent for the Fifth Reviews**. These include maintaining price stability, strengthening buffers, and reducing vulnerabilities through continued fiscal and external consolidation, together with further structural reforms to improve the business environment and competitiveness and support private investment and productivity gains.

5. **Growth is expected to moderate in 2013, while inflation should remain within the CBA's target range.** The effects of last year's favorable weather on agriculture are likely to dissipate, and credit expansion will decelerate; however, potential growth appears to be increasing, reflecting investments in the services and industry sectors (e.g., mining, agro-processing) and stabilization of the construction sector. Inflation is expected to pick up slightly to the center of the CBA target range of 4 ± 1.5 percent.

6. **We consider that our monetary policy stance is consistent with the projected slight increase of inflation to the mid-point of the CBA's target band**. However, we will continue to monitor closely developments and projections of headline and core inflation, and stand ready to adjust our monetary policy as needed. We remain committed to a flexible exchange rate, with intervention limited to dampening excess volatility in the thin foreign exchange market. We will continue efforts to build our reserves buffer, and will strengthen communications with the markets and the public in line with guidance from IMF MCM/RES TA in January.

7. **Risks arise from possible adjustments in gas prices and geopolitical issues**. We have been in discussions with the Russian authorities on a new gas supply arrangement, and we hope to keep any price increases to a manageable level in order to limit negative impacts on growth. We stand ready to contain the second-round effects of any gas price increase on inflation by adjusting monetary policy, if needed. We may consider providing limited and targeted support to low-income households. Risks also arise from a possible deterioration in Europe and in the global environment (driven by a slowdown of growth in emerging economies), as well as from regional geopolitical concerns.

8. **The headline fiscal deficit for 2013 may again be lower than budgeted**. While the 2013 budget envisaged that delays in major capital projects would be overcome, these have continued, in particular land and right-of-way issues connected with the North-South highway. This may lead to some capital underspending again this year. We are reviewing prospects to adjust economy-wide minimum wages, which would impact the wage bill, but would be accommodated within the agreed fiscal envelope. Revenues were strong in the first quarter, but risks could rise if the weakening of

metals prices persists. Important tax administration reform efforts are underway in 2013, building on progress in risk-based audit and resolution of tax disputes. Ongoing efforts include launching of an electronic system for individual accounts under the new unified personal income tax and work on strategic planning, compliance enforcement, revenue analysis, internal control processes, and IT infrastructure. An IMF FAD TA mission in April made recommendations to strengthen the taxpayer registry, audit processes, filing enforcement, arrears collection, and the organizational structure of the State Revenue Committee.

9. **Structural reforms will target a conclusion of pension reform preparations and improvements in the business environment**, including through our Doing Business Action Plan, inspection reforms, and regulatory streamlining via the regulatory guillotine initiative. The legal and regulatory framework for pension reform is now largely in place, and we have identified a number of top-tier pension fund managers who have expressed interest to manage funds under the new pension arrangements and will proceed with licensing arrangements. We are continuing to pursue an investor for Nairit and will continue to consult with the Fund staff, in order to keep risks and impacts on public finances to a minimum. In the wake of the shut-down of Armavia, we are pursuing options that aim at liberalizing the civil aviation sector—modernizing and strengthening the competition framework in the sector, while enhancing connectivity at lower costs.

10. **We have prepared a new Armenian Development Strategy to guide our efforts to ensure sustainable and durable growth**. The prime goal of the ADS is to create more high-productivity jobs through reforms to: (i) further improve the business environment, (ii) deepen the financial sector; (iii) further develop industry and export-promotion institutions; (iv) improve labor market conditions; (v) upgrade and develop infrastructure in water, irrigation, transport, and electricity; (vii) promote human capital development through better education and healthcare; (viii) strengthen social protection through a new pension system and other forms of assistance; and (ix) modernize public administration and governance, including by improving efficiency and transparency of decision-making and civil society participation.

C. Completion of the Sixth Reviews

11. **The EFF/ECF–supported program arrangements, remains on track**:

- **All continuous and periodic performance criteria (PC) and most indicative targets (IT) for end-December 2012 and March 2013 were met** (Table 1). The NIR and fiscal deficit targets were met with particularly large margins. Reflecting the large foreign exchange purchases in the second half of 2012, the end-December reserve money IT was exceeded by AMD 28 billion (4 percent of the stock). The end-March reserve money IT, which was not reset to take account of end-year developments was also missed, but by a smaller margin of AMD 11 billion The December 2012 IT floor on social spending was missed by a small margin, reflecting a slower-than-expected process of identifying and making payments to households newly eligible for the social transfers after further efforts to better target the FBP and the transfer of payments to families of military-related benefits to another program.

- **All but one of the structural benchmarks have been implemented** (Table 2). One of the pension reform related decrees was approved and the other one has been sent to the government for approval, and all systems are in place and are being tested. The regulatory guillotine initiative is advancing, with a third streamlining packet (health) submitted in March to the cabinet. The first streamlining packet (public utilities) was approved by parliament in mid-May, and another packet (road transport) is under discussion in parliament. Work is underway on new packets in education, land and construction, social issues, tax and customs, and culture. We are also continuing efforts to complete the integration of social benefits (services and payment) and expect to have the required legal and regulatory changes in place by October 31, so that the new system can be rolled out in 2014. Unified service centers are being created nationwide integrating the work of a range of agencies that provide services to nearly 1 million recipients of pensions, child allowances, unemployment benefits, FBP transfers and unemployment insurance.

- **Concerning the outstanding structural benchmark**, further changes to the legal framework for competition have not yet been submitted to the National Assembly. The changes aim at strengthening the powers of the State Committee for the Protection of Economic Competition (SCPEC), by providing it with investigative powers, enhancing its fines and sanctions (including to reduce incentives for bureaucratic delays in payment), and making institutional changes. Concerns emerged on the provision of investigative powers, including whether this may lead to excessive costs to businesses. We are undertaking a further review of the issue, with support from external TA advisors, and will work to build consensus on a final packet with strong investigative provisions later this year. In addition, we submitted legislative proposals to the Cabinet in December to adopt OECD guidelines for transfer pricing regulation. However, IMF tax experts have identified areas for strengthening of the proposed legislation, and we are working to improve the proposals, which are under consideration in the National Assembly

D. Successor Program

12. **While significant progress has been achieved under the EFF/ECF-supported program, challenges remain.** A successor program would help provide policy continuity, anchor inflation, protect reserves, consolidate the fiscal adjustment, continue the external adjustment (especially by the private sector), further establish buffers and policy space, and pave the way for access to international financial markets. On the structural front, the program would support improved governance and transparency, business environment gains, and export-led growth, while addressing key challenges, notably in energy. The program would provide important support as we repay crisis-related financing and provide assurances to other partners. We initiated discussions with the Fund staff at the time of the mission for the Sixth Reviews and look forward to continuing these later this year.

E. Conclusion

13. **We will maintain a close policy dialogue with the Fund and stand ready to take additional measures, as appropriate, to ensure the achievement of our objectives under the EFF/ECF-supported program.** We will continue to consult with the Fund on the adoption of measures, and in advance of revisions of the policies contained in the LOI, in accordance with the Fund's policies on such consultation. We will also provide the Fund with information it requests for monitoring program implementation. The program's quantitative PCs and ITs, as described in the attached Technical Memorandum of Understanding, and structural benchmarks are set out in Tables 1 and 2.

14. **Based on our performance under the program, we request that the IMF Executive Board complete the Sixth Reviews of the EFF/ECF-supported program and approve the associated disbursements of SDR 55.00 million.** We authorize the IMF to publish this Letter of Intent and its attachments, as well as the accompanying staff report.

Very truly yours,

/s/
Tigran Sargsyan
Prime Minister
Republic of Armenia

/s/
David Sargsyan
Minister of Finance
Republic of Armenia

/s/
Artur Javadyan
Chairman of the Central Bank
Republic of Armenia

Table 1. Armenia: Quantitative Targets, 2011–13

Table 1. Armenia: Quantitative Targets for 2011–13 1/

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

	2011	2012									2013						
	Dec.	Mar. 2/		Jun.		Sep. 2/		Dec.			Mar. 2/			Jun. 2/		Sep.	Dec.
	Act.	Adj. Prog.	Act.	Adj. Prog.	Act.	Adj. Prog.	Act.	5th Rev. 3/	Adj. Prog.	Actual	5th Rev. 3/	Adj. Prog.	Prel.	5th Rev. 3/	Proj. 4/	Proj.	Proj.
Performance Criteria																	
Net official international reserves (floor, in millions of U.S. dollars)	794	782	810	828	778	842	810	761	753	830	710	705	766	712	713	730	753
Net domestic assets of the CBA (ceiling)	201	195	152	189	163	202	195	252	251	231	248	248	230	288	266	302	386
Program fiscal balance (floor) 5/	-187	-27	-13	-37	-35	-64	-52	-167	-168	-87	-30	-30	-6	-53	-29	-53	-120
External public debt arrears (continuous criterion)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Indicative Targets																	
Reserve money (ceiling)	671	583	554	599	564	619	604	651	656	684	629	634	645	660	633	663	754
Average concessionality of newly contracted debt (floor, in percent) 6/	34							30		30	30		30				
Social spending of the government (floor) 7/	29	8	8	15	16	28	24	37	37	33	8	8	8	16	16	25	34
Memorandum items:																	
Budget support grants	28	28	28	28	28	28	28	37	36	36	37	36	36	37	36		
o.w. EU MFA grant	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19		
Budget support loans	46	67	67	108	108	108	108	114	114	114	114	114	114	142	114		
o.w. non-IMF loans	24	45	45	76	76	76	76	76	76	76	76	76	76	104	76		
Project financing	44	23	4	12	12	38	29	64	47	47	34	12	12	67	37		
KFW and IBRD loan disbursements	11	14	14	14	17	19	19	25	23	23	25	24	24	25	25		

Sources: Armenian authorities; and Fund staff estimates.

1/ All items as defined in the TMU.
2/ Indicative target.
3/ Refers to the review at which the perfromance criteria and indicative targets were set.
4/ The narrowing of the NIR projection vis-à-vis the 5th Review figure is mainly due to delays in the disbursement of one budget suport loan.
5/ Below-the-line overall balance excluding net lending and project financing until March 2011. Below-the-line overall balance excluding net lending from June 2011.
6/ Assessed on a calendar year basis.
7/ Defined as 100 percent of the budgeted amount of the family benefit program and lump-sum financial aid.

Table 2. Armenia: Structural Benchmarks Under the EFF/ECF

Item	Measure	Time Frame (End of Period)	Outcome	Comment /Status
Tax administration				
1	Issue a government decree stipulating that clarifications and interpretations of laws, regulations, and procedures on taxes, duties, and mandatory fees should be approved by the Ministry of Finance. These clarifications and interpretations will become normative acts to be published and applied consistently across all taxpayers effective September 1, 2010.	July 2010	Met	
2	Set up a Tax Appeals Council under the Government to deal with legal and procedural disputes of taxpayers.	September 2010	Met with delay	
3	Develop manuals in tourism, real estate, transport, and sectors using cash register machines for tax audits for usage starting January 2011.	December 2010	Met	
4	Simplify the reporting system by reducing the frequency of reporting to tax authorities and considerably streamline tax forms for VAT, profits tax, and personal income tax.	December 2010	Met	
5	Adopt a government decree establishing a mechanism for implementing a fully functional risk management approach in VAT refund processing.	December 2010	Met	
6	Implement a fully functional risk-based management approach in VAT refund processing.	June 2011	Met with delay	
7	Establish the capacity to identify whether the taxpayer has VAT liability by adding a VAT payer identification number to the tax identification number.	December 2011	Met	
8	Issue a White Paper detailing the measures and costs to address of addressing mixed cash and accrual accounting and refunding or setting off against future VAT liability excess VAT credits.	March 2012	Met	
Tax policy				
9	Introduce legislative changes that provide for annual automatic indexation of excises for inflation.	August 2011	Not met	Annual automatic adjustment mechanism proposal in 2011 not supported by the National Assembly.
10	Increase the tax rate structure for up-market luxury vehicles and SUVs for 2012 and adjust the specific tax on cars annually for inflation.	December 2011	Not met	Tax rates for luxury vehicles increased for 2012, but no annual adjustment mechanism.
11	Approve a Tax Strategy paper that lays out the tax reform objectives and implementation plan for 2012–15.	December 2011	Met	
12	Overhaul fiscal regime for the mining sector	December 2011	Met	
	a. Strictly limit the fiscal stability clause in the new mining code to tax rates and to a set period of 5 years.		Met	
	b. Introduce and collect resource rents in terms of a variable royalty regime with the sliding rate depending on the EBIT to sales value.		Met	
	c. Clarification of deductibility of contributions for mine rehabilitation and mine site clean-up.		Met	
13	Submit to Parliament legislative proposals to adopt OECD guidelines for transfer pricing for implementation in 2013.	November 2012	Met	The government approved the law on transfer pricing on Dec. 27. Further improvements will be made to the draft legislation prior to National Assembly consideration.
Social policy				
14	Submit amendments to existing laws to parliament to enable the full functioning of an integrated system for the provision of social protection services.	December 2011	Not met (rephasing to 2013)	Successful pilot project for integrated system in 6 regions revealed need for additional work on legislative and regulatory package. Package now expected to be passed by October 31, 2013.
15	Approval by Cabinet of list and timetable of required legal and regulatory amendments to enable the full functioning of the integrated system of social protection services	October 2012	Met	

Table 2. Armenia: Structural Benchmarks Under the EFF/ECF (concluded)

Item	Measure	Time Frame (End of Period)	Outcome	Comment / Status
Fiscal and debt sustainability				
16	Approve a medium-term expenditure framework (2011–13), including a medium-term debt management strategy.	August 2010	Met	Subsequent MTEFs have been approved in 2011 and 2012.
17	Complete first set of estimates of the fiscal cost of the pension reform.	December 2012	Met	
18	Submit by government to Cabinet two pension reform decrees to establish: (i) procedures for managing the guarantee fund for mandatory, funded contributions; and (ii) quantitative and currency restrictions on investing mandatory funded pension assets in financial instruments.	December 2012	Met	Decree on quantitative and currency restrictions on investing the second pillar assets approved. Guarantee fund decree expected to be approved in June.
Monetary sector				
19	Approve terms and conditions for deposit auction to enable the CBA to absorb liquidity with greater flexibility.	September 2011	Met	
20	Publish the CBA's liquidity forecast that provides projected amount of dram liquidity before CBA's actions with indication of separate components such as currency outside the CBA, net foreign assets, government transactions excluding treasury bill issuances, and treasury bill issuances for liquidity management purposes.	December 2011	Met	
Financial sector				
21	Issue prudential regulations to specifically address currency-induced credit risk, including increased loan-loss provisioning requirements and higher risk weights in capital requirements for foreign currency loans.	June 2010	Met	
22	Formalize the Committee for Financial Stability in an MOU to set the modalities for main policy makers to coordinate their policies and responses in case of an imminent critical situation in the banking sector.	September 2010	Met	
23	Issue prudential regulation requiring banks to prepare their contingency plans for liquidity and solvency support.	December 2010	Met	
24	Issue a regulation initiating collection and transmission by banks to the CBA of information on the currency mismatch of large borrowers.	June 2012	Met	
25	Issue a regulation introducing low-level liquidity coverage ratios by major currencies, effective January 2013.	June 2012	Met	
26	Amend and issue by CBA regulations to require banks to immediately report to the CBA changes to operations that have a material adverse impact on the bank (e.g., any substantial change in activities, structure, financial situation or overall condition, or as soon as banks become aware of any material adverse developments, including breaches of legal or prudential requirements).	December 2012	Met	
Regulatory and competition policy and enforcement				
27	Submit to Parliament further changes to the legal framework for competition (fines and sanctions, definitions).	October 2012	Not met	Authorities will work to build consensus on a final packet with strong investigative provisions later this year.
28	Submit to Cabinet a packet of legislative and regulatory changes in at least one area under the Regulatory Guillotine initiative (from among construction permitting, inspections, health and social regulations, or another major regulatory reform area).	December 2012	Met	Packets on road transportation and public utilities were submitted to Cabinet and subsequently to parliament.
29	Submit by government to parliament another regulatory guillotine legislative packet (i.e., following completion of packets in 2012. This could cover, e.g., construction permits or education).	March 2013	Met	Packet on health care submitted.

Attachment. Updated Technical Memorandum of Understanding

1. This memorandum sets out the understandings between the Armenian authorities and the IMF staff regarding the definition of performance criteria and indicative targets, their adjusters, and data reporting requirements for the three-year EFF/ECF Arrangement as per the Letter of Intent dated June 5, 2013 (LOI).

2. For program monitoring purposes, all foreign currency-related assets, liabilities, and flows in the monetary accounts will be evaluated at program exchange rates. The program exchange rate of the Armenian dram to the U.S. dollar is set at 385 dram per one U.S. dollar. The cross-rates for other foreign currencies are provided in Table 1.

I. Quantitative Targets

3. The program sets performance criteria and indicative targets for defined test dates (see Table 1 in the LOI). The program sets the following performance criteria:

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

The program sets the following indicative targets:

- Ceiling on reserve money;
- Floor on average concessionality of new debt; and
- Floor on social spending of the government.

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

- Gross official international reserves are defined as the CBA's holdings of monetary gold (excluding amounts pledged as collateral), holdings of Special Drawing Rights (SDRs), including the August 28, 2009 General Allocation and the September 9, 2009 Special Allocation, the country's reserve position at the IMF, and holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments). Gross reserves held in the form of securities and other financial instruments are marked to market. Excluded from gross reserves are the balance on the government's

Special Privatization Account (SPA), capital subscriptions in foreign financial institutions and illiquid foreign assets, any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

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

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

5. **Reserve money** is defined as the sum of currency issued, required and excess reserves, and current and time deposit accounts of certain resident agents. Liquidity absorbing transactions under reverse repurchase agreements, foreign currency swaps, and securities issued by the CBA are excluded from the reserve money definition. The ceiling will be considered as met if the outcome is within AMD 5 billion of the indicative target sets in Table 1 attached to the LOI.

6. **Net domestic assets** are defined as reserve money minus NIR, minus other assets not included in gross official international reserves, minus commercial bank required and excess reserves at CBA in FX, plus medium and long-term foreign liabilities (i.e., liabilities with a maturity of one year or more) of the CBA, plus other foreign liabilities not included in official reserve liabilities, minus the balance of outstanding Fund purchases credited to the government account at the CBA. NDA is composed of net CBA credit to the general government plus outstanding credit to domestic banks by the CBA (including overdrafts) minus liabilities not included in reserve money and other items net.

7. **External public debt arrears** are defined as all unpaid debt-service obligations (i.e., payments of principal and interest) arising in respect of public sector loans contracted or guaranteed, including unpaid penalties or interest charges associated with these obligations that are overdue beyond 30 days after the due date.[1] The ceiling on external payment arrears is set at zero.

8. **The program fiscal balance** is cumulative from the beginning of the fiscal year and is measured from the financing side as the negative of the sum of net domestic banking system credit to the central government, net domestic nonbank financing, and net external financing to the

[1] The public sector is here defined following the *Government Financial Statistics Manual* (GFS 2001) and *System of National Accounts* (1993 SNA). It includes the general government and nonfinancial public enterprises (as defined in paragraph 12).

central government. Should a general subsidy or any other fiscal transaction be introduced off-budget, the overall balance will be measured including the subsidy and other fiscal transactions as part of government spending

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

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

- **Net external financing** equals total debt-increasing disbursements from non-residents to the central government (including Fund net purchases credited directly to the government accounts at the CBA) less total amortization from the central government to non-residents. All foreign currency-denominated transactions are recorded in drams using the prevailing exchange rate at the time of the transaction.

9. External and domestic net lending, which are recorded as financing items, are *excluded* from the calculation of the program fiscal balance. This effectively treats net lending as an expenditure item when loans are made and as a revenue item when the loans are repaid.

10. Some project implementation units maintain accounts at the CBA. Grants received by these units are recorded in the fiscal accounts as external grants on the revenue side and as foreign-financed expenditure on the expenditure side. In addition, any loans to finance investments that are intermediated through the banking system are recorded in the financial accounts as a financing item below the line and are thus excluded from net lending. Under previous Technical Memoranda of Understanding, these activities were excluded from the calculation of the program fiscal balance. This treatment reflected lags in receiving information from project implementation units and on project loans intermediated through the banking system. With the shift to semi-annual program reviews with the EFF/ECF arrangement and consolidation of the accounts of these units in the Treasury, there is no longer a need for such exclusion, and these activities are now fully accounted for in the program fiscal balance.

11. Foreign currency proceeds from selling enterprises are deposited into the Special Privatization Account (SPA). The SPA is held at the CBA and the proceeds are invested abroad together with the CBA's international reserves. These proceeds are included in the definition of the monetary accounts of the CBA as part of net foreign assets with a counter entry in other items net.

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

Any budgeted withdrawal from the SPA will be accounted for as privatization proceeds used to finance the budget and will be recorded below the line. Any unanticipated withdrawal from the SPA will be recorded below the line as privatization receipts; these withdrawals, however, will be replenished during the same fiscal year. Domestic currency proceeds from selling enterprises to residents are deposited in a sub-account of the treasury single account and are also treated as a financing item and recorded below the line.

12. The program sets an annual indicative floor of 30 percent on average concessionality of new debt on a contraction basis on debt with nonresidents with original maturities of one year or more contracted and guaranteed by the public sector.

- The grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose for 2011 onwards are the currency specific commercial interest reference rates (CIRRs), published by OECD. For debt with a maturity of at least 15 years, the ten-year-average CIRR is used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR is used. The margins for differing repayment periods (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more) are added to the ten-year and six-month CIRR averages.

- The public sector here comprises the general government, the central bank, and nonfinancial public enterprises (enterprises and agencies in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget).

- For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

13. The program sets a floor on **social spending of the government**. For the purposes of the program, social spending of the government is defined as 100 percent of the budgeted amount of the family benefit program and lump-sum financial aid.

II. Adjustors

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

- **Changes in reserve requirements**: The ceiling on the NDA of the CBA and the ceiling on reserve money will be adjusted downward (upward) by the amount of banks' reserves freed (seized) by any reduction (increase) of the reserve requirement ratio on both domestic currency and foreign currency liabilities relative to the baseline assumption as per the following formula: $\Delta NDA = \Delta rB$, where B denotes the level of liabilities subject to reserve requirements in the initial definition and Δr is the change in the reserve requirement ratio.

- **KfW and World Bank loan disbursements**: the ceiling on the NDA of the CBA will be adjusted upward (downward) by the full amount of any excess (shortfall) of disbursements from the KfW and World Bank loans directed at SME financing compared to programmed amounts (Table 2). The floor on NIR will be adjusted upward (downward) by the cumulative amount of any excess (shortfall) of these disbursements compared to program amounts.

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

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

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

- **The floor on NIR** will be adjusted upward (downward) by the cumulative amount of any excess (shortfall) of budget support loans or budget support grants (excluding Fund disbursements to the government) compared to program amounts (Table 3). The floor on NIR will be adjusted downward for any external public debt amortization amounts in excess of program amounts. The floor on NIR will be adjusted upwards by the amount of any funds received in respect of deposits held at the Inter State Bank.

- **The ceiling on NDA** will be adjusted downward (upward) by the cumulative amount of any excess (shortfall) of budget support loans or budget support grants compared to program amounts (Table 3).

- **The floor on the program fiscal balance on a cash basis** will be adjusted upward (downward) by the cumulative total amount of the budget support grants received in excess (to account for a shortfall) of the program amounts (Table 3), subject to a cap of $50 million in either direction. The floor on the program fiscal balance on a cash basis will also be adjusted downward (upward) by the cumulative total amount of the project financing received in excess (to account for a shortfall) of the program amounts (Table 3), subject to a cap of $100 million in either direction.

III. Data Reporting

15. The government will provide the IMF the information specified in the following table.

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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	by commercial banks			
	T-bill and coupon bond financing, CBA securities	Auction data: date, original and remaining maturities, issuance volume, allocation, average yield and coupon yield (if available)	Weekly	Last working day of the week
	Banking data	Sectoral distribution of loans and deposits; dollarization of loans and deposits; loan maturities; interbank rate, by volume and maturity; T-bill rate, bond yield; deposit and lending rates, by maturity; monthly weighted average interest rate on government bonds	Monthly	Within 25 days of the end of each month
	Banking indicators	Capital adequacy; asset composition and quality; profitability; liquidity; open FX positions; and compliance with prudential norms	Monthly	Within 30 days of the end of each month
	Banking sector stress tests	Results of stress tests on exchange rate, liquidity, and credit risk	Monthly	Within 30 days of the end of each month
	On-lending via commercial banks	On lending via the CBA and government (from the Russian loan, KfW, WB, ADB, etc.) by type of on-lending projects (including loan disbursements and repayments)	Monthly	Within 10 days of the end of each month.
	CPI	Index of core inflation	Monthly	Within 21 days of the end of each month
	Transfers	Non-commercial transfers of individuals	Monthly	Within 30 of the end of each month
	Other monetary data	IFS format	Monthly	Within 45 days of the end of each month
Ministry of Finance (MOF)	T-bill and coupon bond financing	By holders, i.e., CBA, resident banks, resident nonbanks, and nonresidents	Monthly	Within 7 days of each month
	External debt	Disbursements and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the CBA, and state-owned companies (by company); any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears	Monthly	Within 21 days of the end of each month. For project implementation units, within 21 days of the end of each month (preliminary data) and within 45 days of the end of each month (final data)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	Revenue collection	Total revenue collected separately by the tax administration and customs administration, including revenue by individual tax, and social contributions	Monthly	Within 7 days of the end of each month
	Domestic expenditure arrears	All unpaid claims outstanding at the end of the month which includes wages, social contributions (including for pensions), family allowances, and amortization and domestic interest payments	Monthly	Within 45 days of the end of each month for government arrears
	Privatization receipts	Balance on the SPA; gross inflows into and outflows from the SPA during the month, specifying the nature of each transaction	Monthly	Within 7 days of the end of each month
	Treasury single account (TSA)	Detailed breakdown of central treasury account, including deposits at the central treasury, community budgets, off budget account, monetization account, state budget account and the Republic correspondent account—flows during the month and end of month stocks.	Monthly	Within 7 days of the end of each month
	Consolidated central government	State budget	Monthly	Within 30 days of the end of each month
	Consolidated general government	Central and local governments, and Non-Commercial Enterprises that belong within the general government (NCEs)	Quarterly	Within 60 days of the end of each quarter
	Consolidated general government	Central and local governments, and NCEs that belong within the general government	Annual	Within 180 days of the end of each year
	Budget execution	All cash receipts, cash expenditures, including domestic and external debt-service payments, external and domestic borrowing operations, and inflow of grants to the central government; expenditure data will be provided according to both economic and functional classifications, consistent with the GFSM2001 methodology	Monthly	Within one month following the end of each quarter.
NSS	Balance of payments	Detailed export and import data	Monthly	Within 28 days of the end of each month
		Detailed export and import data	Quarterly	Within 45 days of the end of each

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
				quarter
		Detailed balance of payments data	quarterly	Within 60 days of the end of each quarter
	CPI	By category	Monthly	Within 5 days of the end of each month
State Revenue Committee	Tax arrears	By type of tax	Monthly	Within 30 days of the end of each quarter (monthly data provided on a quarterly basis)
		For or the 30 largest debtors and for all major companies in the energy, water, and irrigation sectors	Quarterly	Within 30 days of the end of each quarter
	Tax credits	Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues	Monthly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
	VAT refund claims in arrears	Detailed data on VAT refunds in arrears which include all outstanding VAT refunds that have not been accepted (and refunded), or offset (in full or in part), or rejected (in full or in part) after the 90 day statutory processing period. Number of refund applications processed per month.	Monthly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
	Large taxpayers	Data on the number of taxpayers and amount of taxes managed by the large tax inspectorate	Monthly	Within 45days after the end of each month
	Import data	1. Total value of recorded imports, breaking out raw diamond imports; 2. Total value of non-duty free recorded imports; 3. Number of total transactions involving recorded imports; 4. Number of total transactions involving non-duty free recorded imports 5. Value of recorded imports where customs value was assessed using transaction prices, breaking out raw diamond imports; 6. Value of non-duty free recorded imports where customs value was assessed using transaction prices; 7. Number of transactions involving	Quarterly	Within 30 days of the end of each quarter

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		recorded imports where customs value was assessed using transaction prices; 8. Number of transactions involving non duty free recorded imports where customs value was assessed using transaction prices		
	Automated VAT refunds	Number of refunds that were processed automatically (share of total refunds); total value of automated and automatic refunds and offsets; average waiting time (days) to receive refund	Monthly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
	Risk-based selection approach	Percentage of selected companies chosen on the basis of risk-based approach, identified revenue from risk-based audits	Monthly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)

Table 1. Armenia: (Program) Exchange Rates of the CBA
(As of December 31, 2008 in U.S. dollars per currency rates)

Country	Drams Per Currency	Dollars Per Currency
Australian dollar	266.57	0.6924
Canadian dollar	313.39	0.8140
Swiss franc	365.58	0.9496
Danish krone	73.26	0.1903
Euro	546.00	1.4182
Pound sterling	558.68	1.4511
Japanese yen	4.27	0.0111
Norwegian krone	55.20	0.1434
Russian ruble	13.13	0.0341
Swedish krone	18.21	0.0473
SDR	593.00	1.5403

Table 2. Armenia: KFW and IBRD SME Loan Disbursements [1]
(In millions of U.S. dollars)

Dec-11		Mar-12		Jun-12		Sep-12		Dec-12		Mar-13		Jun-13	
EBS/11/170	Act.	EBS/11/170	Act.	EBS/11/170	Act.	EBS/11/170	Proj.	EBS/11/170	Act.	EBS/12/150	Proj.	EBS/12/150	Proj.
23.8	27.7	25.8	35.6	27.8	45.0	29.8	50.4	31.8	59.4	65.0	59.4	65.0	59.4

[1] Cumulative from end of the previous year.

Table 3. Armenia: External Disbursements to the Public Sector [1]
(In millions of U.S. dollars)

	Dec-11		Mar-12		Jun-12		Sep-12		Dec-12		Mar-13		Jun-13	
	EBS/11/170	Act.	EBS/11/170	Act.	EBS/11/170	Act.	EBS/11/170	Proj.	EBS/11/170	Act.	EBS/12/150	Proj.	EBS/12/150	Proj.
Project financing	152	116	60	12	121	31	181	74	241	122	87	31	175	97
Budget support loan	175	119	175	175	242	279	242	279	259	296	296	296	368	296
Budget support grant	86	73	86	73	101	73	101	73	113	94	96	94	96	94
of which: EU MFA	50	50	50	50	50	50	50	50	50	50	50	50	50	50

[1] Budget support cumulative from the end of the previous year. Project financing cumulative during the same year.

INTERNATIONAL MONETARY FUND

REPUBLIC OF ARMENIA

SIXTH REVIEWS UNDER THE EXTENDED FUND FACILITY ARRANGEMENT AND THE EXTENDED CREDIT FACILITY ARRANGEMENT—INFORMATIONAL ANNEX

June 7, 2013

Prepared By

The Middle East and Central Asia Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of April 30, 2013)

Membership Status:
Joined 05/28/1992; Article VIII

General Resources Account:

	SDR Million	Percent of Quota
Quota	92.00	100.00
Fund holdings of currency	423.44	460.26
Reserve Tranche Position	0.00	0.00

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	87.99	100.00
Holdings	9.10	10.34

Outstanding Purchases and Loans:

	SDR Million	Percent of Quota
Stand-By Arrangements	226.43	246.12
ECF Arrangements	134.79	146.51
Extended Arrangements	105.00	114.13

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	03/06/2009	06/27/2010	533.60	350.43
ECF	06/28/2010	09/27/2013	133.40	106.80
EFF	06/28/2010	09/27/2013	133.40	105.00

Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2013	2014	2015	2016	2017
Principal	141.48	98.08	16.43	25.29	34.51
Charges/interest	3.28	1.84	1.48	1.34	1.15
Total	**144.76**	**99.92**	**17.91**	**26.62**	**35.66**

Safeguards Assessment

Under the Fund's safeguards policy, an update safeguards assessment of the Central Bank of Armenia (CBA) was completed in November 2010 with respect to the current EFF/ECF Arrangements. A safeguards monitoring visit to the CBA was completed in September 2012. The visit made recommendations to strengthen: (i) controls over management of foreign reserves; and (ii) CBA oversight arrangements.

Exchange Rate Arrangement

The de jure arrangement is "free floating." The de facto arrangement was reclassified to "floating" from a "stabilized arrangement," effective March 3, 2009. The official exchange rate is quoted daily as a weighted average of the buying and selling rates in the foreign exchange market.

Armenia maintains no multiple currency practices or exchange restrictions on the making of payments and transfers for current international transactions except for exchange restrictions maintained for security reasons and notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

Article IV Consultations

The 2012 Article IV consultation with Armenia was concluded on December 7, 2012. Armenia is subject to a 24-month consultation cycle.

FSAP Participation and ROSCs

A joint World Bank-IMF mission assessed Armenia's financial sector as part of a Financial Sector Assessment Program (FSAP) update during February 1–14, 2012. The Financial Sector Stability Assessment (FSSA) report was approved by the Executive Board in June 2012. The most recent previous FSAP update took place in 2005.

Resident Representative

Mr. Guillermo Tolosa, since January 2010.

Technical Assistance

The following table summarizes the Fund's technical assistance (TA) to Armenia since 2010.

Armenia: Technical Assistance from the Fund, 2010–13

Subject	Type of Mission	Timing	Counterpart
Fiscal Affairs Department (FAD)			
Tax administration	Short-term	March 1–May 14, 2010	MoF, SRC
Tax administration	Short-term	August 30–November 10, 2010	MoF, SRC
Tax administration Tax administration Tax policy	Short-term Short-term Short-term	September 2010 November 2010 February 2011	MoF, SRC MoF, SRC MoF
Tax administration	Short-term	February–March 2011	MoF, SRC
Tax administration	Short-term	May–June 2011	MoF, SRC
Tax policy (mining)	Short-term	June 14–27, 2011	MoF
Budget process	Short-term	October 11–24, 2011	MoF
Public Financial Management	Short-term	November 2012	MoF
Tax Administration	Short-term	April 2013	MoF, SRC
Legal Department			
AML/CFT	Short-term	Various	MoF
Monetary and Capital Markets Department			
Contingency planning, crisis preparedness Workshop on Inflation Targeting (with IMF Research Dept.)	Short-term Workshop	March 28–April 14, 2010 April 27–May 6, 2011	CBA CBA
Bank resolution framework	Short-term	June 17–27, 2011	CBA
Medium-term debt management strategy	Short-term	December 12–21, 2011	CBA
FSAP update	Short-term	February 1–14, 2012	CBA
Inflation targeting (with IMF Research Dept.)	Short-term	February 27-March 9, 2012	CBA
Inflation targeting	Short-term	November 19-30, 2012	CBA
Inflation targeting	Short-term	January 2013	CBA
Bank prudential framework	Short-term	April 2013	CBA
Statistics Department			
National accounts	Short-term	September 16–28, 2010	NSS
BOP and external debt statistics	Short-term	October 3–13, 2011	CBA
National accounts	Short-term	April 2012	NSS
Monetary statistics	Short-term	April 2012	CBA
National accounts	Short-term	May 2012	NSS
Monetary statistics	Short-term	October 2012	CBA

WORLD BANK AND IMF COLLABORATION—JMAP IMPLEMENTATION

(As of May 23, 2013)

Title	Products	Provisional timing of missions	Expected delivery date (tentative)
1. Bank program in the next 12 months	***Selected Ongoing and New Operations***		
	Public Sector Modernization Project II (US$9m)	Semi Annual	Project Implementation started in Sept. 2010 and closing is Dec. 2015
	Tax Administration Modernization Project (US$12 m)	Semi Annual	WB Board approval July 2012, effective since Dec. 2012
	New DPO series to support competitiveness and ensure sustainability (US$150m)	Oct/Nov 2012, January 2013	Targeted Board date – September 2013
	New Health Project for Disease Prevention and Control (US$30m)	October 2012	WB Board approved – March 2013
	Analytic Work		
	Programmatic Poverty work	Continuous	Annual Series, 2013 report due in Nov. 2013
	Programmatic Fiscal work		Irrigation sector PER November 2013
	New Opportunities for Growth 'Accumulation, Competition, and Connectivity' Report		Dissemination in June 2013
	Policy Notes for new government		Policy workshop in Nov. 2012
	Promoting Productive employment in Armenia – a note on labor market conditions		March. 2013
	Selected Technical Assistance		
	IDF grant for guillotine exercise	Ongoing	2013
	IDF grant to improve tax audit and macro-modeling/projections		2013
	Macro-monitoring		2012-2013
2. IMF work program in the next 12 months	Sixth EFF/ECF Review	April 2013	June 2013
	New Program Discussions	July-September 2013	September-December 2013
	Selected Technical Assistance/Training		
	FAD (follow-up on Revenue administration)	TBD	TBD
	MCM (follow-up on FSAP recommendations and Inflation targeting)	TBD	TBD
3. Joint work program	DSA Updated DSA	September 2012 July-September 2013	December 2012 September-December 2013

RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

(As of May 31, 2013)

1. As of May 31, 2013, the EBRD had approved 120 projects in the power, transport, agribusiness, municipal and infrastructure, manufacturing and services, property, telecommunications, and financial sectors. Total commitments amounted to around EUR 653.6 million. During the year 2012, the EBRD signed 15 projects with a total volume of EUR 94 million. Since the beginning of 2013, the Bank committed EUR 20.5 million in 5 transactions.

2. EBRD has signed six sovereign projects in Armenia to-date. First, the EBRD approved a sovereign guaranteed loan of EUR 54.8 million for construction of the Hrazdan Unit 5 thermal power plant in March 1993. The government was contemplating the privatization of Hrazdan Unit 5 as the completion of this plant was constrained by limited budgetary resources. The EBRD had funded TA for the Hrazdan privatization prospectus and followed the privatization process. Second, in November 1994, the agreement on a EUR 21.8 million loan to build an air cargo terminal in Zvartnots airport was signed under a guarantee by the Armenian government. The airport was transferred to private management in 2002 (according to a concession agreement). The new management prepared a master plan for the development of the airport, which is expected to generate further cargo traffic for the cargo terminal. In April 2007, the EBRD approved a EUR 7 million loan to the State Committee for Water Systems, owner of the water and wastewater assets located in the small municipalities outside of Yerevan. The proceeds of this loan have been used to improve wastewater treatment in five municipalities located near Lake Sevan. In March 2010, EBRD signed a first EUR 5.0 million sovereign loan with Yerevan Metro Company. This project is providing emergency investments in the Yerevan Metro, covering immediate rehabilitation needs including safety upgrades and energy efficiency. The investment is part of a plan to improve and reform public transport services in the capital of Armenia. In August 2012, EBRD signed its second EUR 5.0 million sovereign loan with Yerevan Metro to primarily address issues related to water ingress into the tunnels. In November 2012, the EBRD signed a €10 million loan to the Armenian government for the construction of a new bridge at Bagratashen, the main border crossing point between Armenia and Georgia, as part of the EU's Integrated Border Management regional initiative. Other financiers, including EIB, the EU, EU NIF, UNDP and the Armenian government, have joined forces to rehabilitate transport infrastructure at the Armenian-Georgian border.

3. Most of the Bank's projects (89%) in Armenia are in the private sector. In addition to the loan to Electric Networks of Armenia (see section 5 below), the Bank approved an additional loan to Zvartnots International Airport in the amount of EUR 29.6 million (supplemented by investments from ADB and DEG). This project followed on from the successful completion, in May 2007, of the first phase of the Passenger Terminal, for which the Bank provided a EUR 14.8 million loan together with DEG (USD 10 million). This project involved the construction and purchase of equipment for the second phase of the Passenger Terminal complex at Zvartnots International Airport and facilitated the completion of Airport Terminal development reallocating all operations (arrivals and departures)

from the old Airport building. The loan was a commercial facility with no sovereign support. Other private sector finance includes relatively smaller loans to private companies and equity participation in a number of companies in various sectors of the industry.

4. In 2012 the Bank committed EUR 94 million to Armenia through 15 transactions, including 8 projects in the financial institutions sector, 1 in equity funds, 2 sovereign projects with Yerevan Metro Company and reconstruction of Armenia/Georgia border check points, and 1 in each sector of natural resources, power & energy , agribusiness and manufacturing and services sector. In early 2012, EBRD together with other international financial institutions supported the creation of the Caucasus Growth Fund. This fund will be managed by the Small Enterprise Assistance Funds (SEAF), a global fund manager, and will be the first institutional quality fund to provide debt and equity to SMEs in the Caucasus region.

5. During January-May 2013, the EBRD has signed 5 transactions for a total volume of EUR 20.5 million of which EUR 4.1 million are trade finance guarantees. Banking sector continues to be the largest contributor so far with 3 transactions signed for EUR 12.5 million. It is worth mentioning that one transaction relates to an energy efficiency credit line which will also cater for residential users, the first of its kind for EBRD in Armenia. The Bank has also signed one transaction in mining sector and one in Agribusiness.

6. In the banking sector, a first equity participation in the Commercial Bank of Greece-Armenia (EUR 1.1 million) was approved in late 1999. Now there are four local banks where EBRD participates in equity: Armeconombank, Byblos Bank Armenia, Ararat Bank and Procredit Bank.

7. The Armenia Multi-Bank Framework Facility II (AMBFF II), established to provide loans and equity to commercial banks and leasing companies in Armenia, was approved by the EBRD Board in March 2006 for an amount of $40 million, and then extended for another $80 million in November 2007. In late 2009, the EBRD has approved a further $100 million extension to AMBFF II in order to support increased financial intermediation and the development of the financial sector in Armenia and to contribute to economic development by providing medium to long-term funding to selected Armenian financial intermediaries. Another extension to this Facility of $100 million was approved in mid-2011. The Facility will seek to develop new products for financial institutions, including provision of local currency loans, agricultural credit lines and mortgage financing. Additional TA will be provided to partner banks.

8. The EBRD expanded its relationship with partner banks in Armenia from four to twelve (taking into account that two EBRD clients – Ameria Bank and Cascade Bank merged in 2010). Nine banks were provided with new credit facilities under the AMBFF. One institution (Armeconombank) was provided with a mortgage facility, and the first leasing facility in Armenia was signed with ACBA Leasing in 2008 for EUR 5.9 million. A co-financing facility with six local banks was also extended resulting in 14 sub-loans to Armenian corporates. By means of co-financing lines, the Bank has entered such new sectors as healthcare and telecoms, in addition to significantly expanding its portfolio of agribusiness loans. A Trade Facilitation Program with the purpose of facilitating access of Armenian banks to trade financing was also made available to nine Armenian banks.

9. As of end December 2012, the EBRD has disbursed about EUR 65 million equivalent in local currency financing to Armenian commercial banks and micro financing institutions. Another EUR 25 million equivalent in Armenian drams are in the pipeline. The Currency Exchange (TCX) provides the Armenian dram hedge to the EBRD. In parallel, the EBRD and IMF are assisting the government and the CBA to implement reforms aiming to facilitate financing in dram, reduce the level of dollarization, and foster the development of local capital markets.

10. Supporting development of renewable energy is another core activity of the Bank. To that end, the EBRD joined forces with the WB, USAID, and Cascade Credit (a financing arm of Cafesjian Foundation) to launch the Armenian Renewable Energy Programme (AREP). The Bank's participation took the form of a loan to Cascade Credit. The Bank also continued to finance renewable energy projects on its own through a Direct Lending Facility, with two such projects signed. In addition to renewable energy, the Bank returned to the mainstream segment of the sector, seeking to support post-privatization development with a loan to the Armenian privately-owned power distribution company. In April 2009, the EBRD signed a EUR 42 million loan with Electric Networks of Armenia to upgrade and modernize obsolete low-voltage infrastructure and improve energy efficiency. In December 2012, the EBRD provided a EUR 19 million loan to International Energy Corporation (IEC) to finance the rehabilitation of seven hydropower plants of the Sevan-Hrazdan Cascade. The project will bring the Company's technical standards in line with best international practice.

11. The EBRD launched the Enterprise Growth Programme (EGP) and Business Advisory Service programs in Armenia in 2003 to support micro, small, and medium-sized enterprises. Since 2003, BAS has completed 936 projects in the amount of EUR 5.9 million, as well as 63 Market Development Activity (MDA) projects. EGP has delivered more than 25 projects. Among the donors are Canada, Taipei China, the United Kingdom, the EU, EU - Eastern Partnership Multi-Beneficiary Technical Assistance, the United States, the Early Transition Countries Fund (ETCF), the EBRD, EBRD Shareholder Special Fund (ESSF).

12. The Bank has launched a USD 25 million program to finance projects for industrial energy efficiency and renewable energy through local banks. In October 2010, the first USD 3.0 million, energy efficiency credit line was signed with Anelik Bank. TA has been put in place financed by the Government of Austria. The Bank has also launched a TA program to review and amend the legal, regulatory, institutional, operational and technical frameworks for energy efficiency in the residential sector. At a later stage, the EBRD will offer financing and capacity building to a selected number of commercial banks to support investments in this sector. The residential sector in Armenia is a large energy consumer with significant potential for energy savings and carbon emission reductions.

13. As part of inspection reform and doing business programs, the EBRD is assisting the government improve the business environment. The EBRD is promoting and supporting the roll-out of a corporate governance code in cooperation with the Ministry of Economy, the Central Bank, the Stock Exchange and the IFC. The Bank is also providing assistance to the Public Services Regulatory Commission for telecommunications sector regulation. This assistance is being financed by the Government of Finland.

14. The EBRD's current country strategy was approved in May 2012. The key priorities of the EBRD for the coming three years are: (i) developing the financial sector and improving access to

finance; (ii) improving municipal and urban transport infrastructure; (iii) developing agribusiness and high value-added, export-oriented industrial companies; and (iv) improving the regulatory and institutional framework for sustainable energy and increasing value added in the mining sector.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ASDB)

(As of May 15, 2013)

1. Armenia joined AsDB in September 2005, and is currently eligible for financing from AsDB's concessional Asian Development Fund (ADF), as well as its non-concessional Ordinary Capital Resources (OCR). AsDB's country operations business plan (COBP) update for 2012–2013, approved in November 2012, identifies regional cooperation, infrastructure, and private sector development as the main areas for AsDB's program. AsDB is preparing a new country partnership strategy for submission to AsDB's Board in 2013.

2. As of May 15, 2013, the AsDB cumulative sovereign lending amounted to $702.56 million. The Women's Entrepreneurship Support Sector Development Program, approved in October 2012, will promote gender-inclusive growth by improving the enabling environment and capacity of women entrepreneurs and micro and small enterprises (MSMEs). The program includes two components: (i) a program loan ($20 million) supporting reforms related to improving the business environment for women; and (ii) a financial intermediation loan ($20 million) through the German-Armenian Fund in which medium-term local currency loans will be made by participating financial institutions to MSMEs, with at least 50% of the loans going to women's MSMEs. In 2012, AsDB provided $40 million as additional financing for the Water Sector and Sanitation Sector Project, approved in 2007, for improving access to safe, reliable, and sustainable services in about 29 towns and up to 160 project villages, managed on commercial principles and with environmentally sound practices.

3. In 2011, ADB approved a $400 million multi-tranche financing facility (MFF) for the Sustainable Urban Development Investment Program, which aims to help Armenia upgrade its urban transport services, to improve living conditions, and bolster economic opportunities in 12 of the country's major and secondary cities. In 2011, AsDB approved Tranche 1 for $48.64 million to improve and extend the urban infrastructure and to strengthen the institutional capacity in Yerevan.

4. In 2009, ADB approved a $500 million MFF to fund the North–South Road Corridor Investment Program. In 2009 AsDB approved Tranche 1 ($60 million) for improving the Yerevan-Ashtarak section of the road. Tranche 2 ($170 million) approved in 2010 finances the upgrade of the road between Ashtarak and Talin. In 2013 AsDB approved Tranche 3 for $180 million to finance continuing construction of the road to Gyumri (cofinancing from the European Investment Bank will reduce AsDB's financing for Tranche 3 while maintaining the total amount of financing for civil works; cofinancing arrangements are not yet finalized). Tranche 3 will also finance engineering and economic studies of the southern sections of the North-South Road Corridor.

5. The Crisis Recovery Support Program Loans ($80 million), approved in July 2009, helped Armenia through the global financial crisis by allowing it to protect budgetary social spending and implement anti-crisis measures in a time of economic contraction and declining fiscal revenues.

6. In 2007, AsDB approved a $30.6 million loan for the Rural Road Sector Project to help the government upgrade 220 kilometers of rural roads. A supplemental financing of $17.32 million was approved in 2008 to address financial shortcomings of the project. A $36 million loan for the Water Supply and Sanitation Sector Project, approved in 2007, helped the government repair and replace water supply infrastructure in small towns and villages.

7. With the exception of the North-South Road Corridor Tranche 2 and Tranche 3 investment program loans, all approved sovereign loans are from the AsDB's concessional ADF. The Tranche 2 and Tranche 3 loans for the North-South road are from the AsDB’s non-concessional OCR.

8. AsDB has approved a total of $133 million in nonsovereign financing in Armenia for three private sector projects. In May 2013, ADB signed a $25 million loan with International Energy Corporation to rehabilitate and to improve the reliability and safety of Sevan-Hrazdan Cascade Hydropower, in a program cofinanced with the European Bank for Reconstruction and Development (EBRD). In November 2011, AsDB approved a non-sovereign lending program totaling $65 million for four commercial banks to expand lending to small and medium-size enterprises (SMEs). One non-sovereign loan for $40 million was provided to Armenia International Airports for the Zvartnots Airport Expansion Project (Phase 2). The loan financed the construction of a new terminal building and purchase of equipment to supplement the existing concourse building, in a program cofinanced with EBRD and DEG (German Investment and Development Corporation). In 2007 AsDB extended a $3 million loan to a local bank for on-lending to small businesses. AsDB’s Trade Finance Program works with three banks in Armenia and has supported over $19 million in trade.

9. In addition to financing projects and programs, the AsDB is also involved in advisory services and capacity development. These include technical assistance programs for urban development in secondary cities, improved access to finance for women entrepreneurs, infrastructure sustainability, power transmission rehabilitation, and solid waste management. Armenia is also included in a number of AsDB's multi-country TA projects, providing assessments and development plans in topics of common interest across countries.

STATISTICAL ISSUES

(As of April 30, 2013)

Background

1. Data provision by Armenia has shortcomings, but is broadly adequate for surveillance. In November 2003, Armenia subscribed to the Special Data Dissemination Standard (SDDS), and the overall quality, timeliness, and coverage of macroeconomic statistics have improved significantly over the past few years. The IMF has supported this process through TA from the Statistics Department (STA), the Fiscal Affairs Department (FAD), and the Monetary and Capital Markets Department (MCM). An April 2008 data ROSC mission prepared a detailed evaluation of the quality of macroeconomic statistics. A multi-topic statistics mission visited Yerevan in February 2010 to review progress with implementation of past recommendations and follow up on outstanding issues in national accounts, balance of payments, and monetary and financial statistics. A follow up STA mission in September 2010 provided further guidance, focusing on improving the accuracy of annual and quarterly GDP estimates. Further improvements in real, fiscal, and external sector statistics would be desirable to facilitate enhanced design and monitoring of economic policies.

Real sector statistics

2. The National Statistics Service (NSS) compiles and disseminates annual and quarterly national accounts. The NSS also compiles and disseminates annually a full set of accounts (up to financial accounts) for the total economy and by institutional sectors. The NSS is developing a plan for implementing the *System of National Accounts 2008 (2008 SNA)*.

3. The accuracy of the annual estimates of the national accounts is undermined by the lack of exhaustive source data for informal activities and of appropriate price and volume indicators, particularly for construction activities. Construction output volume measures are derived by deflating current values with a price index for output, which uses weights and base year prices from a survey in 1984. To improve volume measures of construction, the NSS has started compiling a new construction output price index based on more sound methodology. Until the new construction price index becomes available, the NSS should use other indicators for deriving construction aggregates at constant prices. The NSS should also implement new surveys to derive a proper benchmark for informal activities.

4. The production-side estimates at current prices are derived partially from cumulative source data (from business statistics surveys) and partially from discrete data sources. The NSS validates and reconciles data from different sources, but underlying problems associated with de-cumulating the cumulative output data distort the quarterly pattern. The NSS is currently working to produce GDP data at current and at constant prices to be fully in accordance with the SNA. The NSS received IMF TA on estimating quarterly GDP from discrete data sources only and is using statistical techniques that conform to international standards. Recent publications of the NSS have reflected

this effort. The NSS has discontinued compiling GDP volume measures at the prices of the corresponding quarter of the previous year. The compilation procedures now use only average prices of 2005. The NSS also adopted the recommendation of the IMF STA mission to compile only one set of quarterly GDP estimates—quarterly GDP at previous-year average prices—and derive time series through chain-linking. These estimates would be conceptually consistent with the annual data. They would also allow comparisons between different periods, which are essential for analysis of the business cycle. As of January 2011, the NSS also started compiling a monthly indicator of economic activity (IEA), following international best practices. The monthly GDP compilation was discontinued. The monthly IEA is an implicit volume index compiled by aggregation of monthly volume indices of output using gross output weights. The CPI covers 11 large population centers and Yerevan. Since January 2011, the CPI has been computed using 2010 weights. Concepts and definitions used in the compilation of the CPI are broadly in line with international standards; source data and compilation techniques are generally adequate. The NSS compiles a ten-day and a monthly CPI. The ten-day index and the monthly index are disseminated jointly. A February data 2009 ROSC mission recommended development of an approach to include household expenditure on owner-occupied dwellings in the CPI calculations.

Government finance statistics

5. The budget execution reporting system compiles government finance data on a cash basis, supplemented with monthly reports on arrears and quarterly reports on receivables and payables. Daily revenue and cash expenditure data for the central government are available with a lag of one to two days and monthly data on central government operations are disseminated one month after the reporting period. The ministry of finance (MoF) is undertaking a comprehensive reform of the treasury system, including the introduction of an internal auditing system in line ministries and their respective budgetary institutions. A treasury single account (TSA) was introduced in 1996, and all bank accounts held by budgetary institutions were closed, except for project implementation units (PIU) that are required by donors to operate with commercial bank accounts. These PIU accounts are being moved gradually to the CBA. Starting in 2002, some budgetary institutions have been converted into "noncommercial organizations" (NCOs). These units have been taken out of the treasury system and have their own bank accounts, but since 2003 report data on cash flows and balances to the MoF. The February 2009 ROSC report recommended including NCOs in the government finance statistics data published on national websites. These exceptions notwithstanding, all government receipts and payments are processed through the TSA, although there are still shortcomings on the timeliness and quality of data on the operations of local governments.

6. The budget presentation and the classification of items under the economic and functional classification of expenditures need to be made more transparent; for instance, the data have been subject to frequent reclassification, and wages for military personnel are reported in the category of "other" goods and services rather than as a wage item. The February 2009 ROSC report recommended using market value rather than face value for financial assets other than loans, and

for nonfinancial assets. The reconciliation of central government with general government operations is done by the NSS in cooperation with the MoF.

7. Since 2008, government finance statistics meet the classification requirements of the *Government Finance Statistics Manual 2001* (*GFSM 2001*) for the central government.

Monetary and financial statistics

8. Monetary and financial statistics are provided on a timely basis. Data on the accounts of the CBA are provided daily with a one-day lag, while monthly data on the monetary survey are provided with a three-week lag (and preliminary weekly data with a one-week lag). The balance sheets of the CBA and of the deposit money banks follow IAS methodology. Monthly interest rate data are provided with a one-week lag.

9. Responding to an IMF STA request, the CBA has compiled and submitted a complete set of monetary data beginning from December 2001 using standardized report forms (SRF). STA validated the resulting monetary aggregates, and the data have been published since the December 2006 issue of *IFS Supplement* and are used to update IFS. An integrated monetary database has also been established by STA to share the SRF data with the IMF's Middle East and Central Asia Department. The CBA also produces the financial soundness indicator table every month, published on both the IMF and CBA websites.

External sector statistics

10. In 2009, the Armenian authorities decided to transfer the responsibility for compiling the balance of payments, international investment position (IIP), and external debt statistics from the NSS to the CBA. The February 2010 STA mission provided advice on an action plan aimed at ensuring a smooth institutional transfer of responsibility, as well as consistency and continuity in the production of the external sector statistics. The responsibilities of compiling external sector statistics were *de facto* transferred to the CBA in January 2011, and since then, the CBA has compiled balance of payments, external debt, and IIP data for 2011. The transfer of responsibilities was smooth and during the short period after the transfer, the CBA undertook a number of important actions aimed at improving the compilation system. A follow up IMF STA mission in October 2011 undertook a comprehensive assessment of the institutional arrangements, data sources, methodology, and compilation practices for external sector statistics employed by the CBA, and advised on areas for improvement including further developing data sources and compilation practices.

11. The coverage of external sector data has improved in recent years. Trade statistics are provided on a timely basis, and trade data by origin, destination, and commodity are generally available within a month. Price data for exports and imports are less readily available. Quarterly balance of payments statistics are generally available with a three-month lag. However, for remittances, there are considerable discrepancies among available source data. Remittance data obtained from surveys are considerably lower than data obtained through the money transfer

system. The absence of a comprehensive, continuously updated business register hampers the coverage of transactions and institutional units; in particular, the coverage of the financial account items for the private nonbank sector. There are also concerns with regard to the collection of data on international trade in services, specifically on import of services. The CBA is currently considering the implementation of an international transactions reporting system that would allow for collecting data on all cross-border payments and receipts going through the banking system.

12. Quarterly data on the international investment position are published by the CBA within one quarter after the reference period, and the annual data within two quarters; and are also provided for publication in IFS.

Armenia: Common Indicators Required for Surveillance
(As of April 30, 2013)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	April 2013	04/30/2013	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	April 2013	04/30/2013	D	D	M
Reserve/Base Money	April 2013	04/30/2013	D	D	D
Broad Money	March 2013	04/30/2013	M	M	M
Central Bank Balance Sheet	March 2013	04/30/2013	D	M	M
Consolidated Balance Sheet of the Banking System	March 2013	04/30/2013	M	M	M
Interest Rates[2]	April 2013	04/30/2013	W	W	M
Consumer Price Index	March 2013	04/30/2013	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]— General Government[4]	Dec. 2012	04/30/2013	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	March 2013	04/30/2013	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	March 2013	04/30/2013	M	M	Q
External Current Account Balance	Q4 2012	03/31/2013	Q	Q	Q
Exports and Imports of Goods and Services	Q4 2012	03/31/2013	M	M	Q
GDP/GNP	Q4 2012	03/31/2013	Q	Q	Q
Gross External Debt	Q4 2012	03/31/2013	Q	Q	Q
International Investment Position[6]	Q4 2012	03/31/2013	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); and Not Available (NA).

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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July 1, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under EFF/ECF Arrangement for Armenia and Approves US$84 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) on June 24th completed the sixth and final review of Armenia's economic performance under a program supported by Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements. The completion of the review allows the authorities to draw an additional SDR 55 million (about US$84 million), bringing total disbursements under the arrangements to the full SDR 266.8 million (US$407.2 million) available. The three-year EFF and ECF arrangements with Armenia were approved by the IMF's Executive Board on June 28, 2010 (see Press Release No. 10/263). The Board's decision on the sixth review was taken on a lapse of time basis.[1]

Policies have largely delivered on the objectives of the EFF/ECF-supported program, which concludes in September. Growth reached 4.7 percent in 2011, 7.2 percent last year, and continues to be strong in 2013. Inflation has remained below the CBA's 4 percent target, and shocks have been short-lived. The Central Bank of Armenia (CBA) has permitted greater flexibility of the dram over the past year, rebuilt reserves following sizeable intervention May-June 2012, and strengthened the monetary framework and operations. The CBA has also moved decisively to implement Financial Sector Assessment Program and IMF technical assistance recommendations. Banking sector indicators remain sound. The reduction of the fiscal deficit over the past three years, which has included substantial tax revenue increases, has reestablished fiscal sustainability and contributed to external adjustment.

At the same time, significant challenges and vulnerabilities remain. Robust growth has resumed, but has reflected in part rapid growth of credit and consumption, favorable weather, and high metals prices. More progress is needed to continue the external adjustment, reduce poverty, further restore buffers, and enhance the business climate and private sector- and export-led growth. Implementation of the authorities' stated policy plans should help address these challenges and vulnerabilities.

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