Armenia's Economic Outlook, Reform Priorities, and Progress Under the IMF-Supported Program

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IMF Resident Representative in Armenia
Mehdi Raissi
Recent Economic Developments
Armenia’s growth was remarkable in 2022, driven by robust demand, and an influx of income, capital, business, and labor. Inflation has been falling.

Real GDP grew by 12.6 percent in 2022...

...largely driven by a record number of nonresidents and FX inflows

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

Contributions to Real GDP Growth (Expenditure approach, in percent)

Money Transfers and Nonresident Deposits

Consumer Price Inflation, SA (In percent change, y-o-y)

Sources: National authorities; Haver Analytics; World Economic Outlook, and IMF staff calculations.
CCA countries performed well in 2022

GDP Growth was stronger than expected

Real GDP Growth, 2022
(Year-over-year percent change)

CCA countries recorded large current account improvements

Current Account Components, 2022
(Change from 2021, percentage points of GDP)

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization country codes.

Sources: Haver Analytics; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization country codes.
CCA responded strongly to inflationary pressures

Central banks raised policy rates substantially, resulting in a neutral or tight monetary stance

Nominal Policy Rates (Percent)

- Policy rate change (end of 2020 to most recent)
- Policy rate (end of 2020)
- Terminal rate (model)
- Natural policy rate (model)
- Terminal rate (TVP-VAR)

Source: IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization country codes. The ranges around the model estimates reflect one SD confidence intervals.

Domestic and external factors fueled inflation in 2022

Wages, Credit, and Depreciation/Appreciation, 2022 (Percent change)

Source: Haver; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization country codes.
Financial conditions have tightened, and spreads have risen amid the recent global financial turbulence.

Overall, domestic financial conditions have tightened.

Since SVB's collapse, most currencies have remained stable...

...but sovereign spreads have edged up.

CCA: Financial Conditions Index (FCI) Decomposition

Exchange Rate

(Sovereign Spreads
(In basis points)

Sources: Bloomberg Finance LP.; Haver Analytics; national authorities; IMF, IFS database; and IMF staff calculations.

Source: Haver (Financial Times and National Authorities) and IMF staff calculations.

Source: Bloomberg, JPMorgan EMBIG Diversified Index, and IMF Staff Calculations.
Fiscal policy has tightened in most CCA countries in 2022.

Public debt declined amid favorable growth and exchange rate conditions.

Change in Primary Balance, 2021-22
(Percent of GDP; non-oil balances for oil exporters)

Gross Debt
(Percent of GDP, change 2021-22)

Source: IMF REO, Middle East and Central Asia, April 2023.

Source: IMF World Economic Outlook, April 2023, and IMF staff calculations.
Outlook, Risks and Policy Priorities
Growth in 2023 is set to moderate and inflation to decline.

Real GDP growth is projected to decelerate...

...and inflation to decline in 2023.

Source: IMF REO, Middle East and Central Asia, April 2023.
Note: *Weighted average
The balance of risks remains tilted to the downside

**Upside Risks**
- Sustained inflows of income, capital, business, and labor to CCA countries

**Downside Risks**
- Slower growth in trade partners
- More entrenched inflation expectations
- Intensification of regional conflicts and sanctions
- Climate-change related risks
- Tighter for longer global financial conditions
- Food security and increased social tensions
- Deepening geo-economic fragmentation
Build fiscal space and capacity
Guide inflation to target
Curb financial sector risks
Enhance financial sector resilience

Facilitate trade, diversification, and FDI
Improve the business environment
Foster inclusion and social protection
Reform the public administration

Pursue higher, more inclusive growth
Preserve macro, fiscal & financial stability
Manage policy trade-offs

Invest in the future

Invest in infrastructure, improved connectivity, and digitalization
Enhance climate change mitigation & adaptation efforts
Invest in human capital

With development partners’ support
Progress Under the IMF-Supported Program
The IMF remains intensely engaged in supporting Armenia

- IMF-Supported Program under a Precautionary Stand-By Arrangement (SBA)
- General SDR allocations

Policy Advice (incl. Article IV Consultation)
- Biannual health-check of the Armenian economy (Article IV Consultation)
- Regular policy discussions with authorities
- Dissemination of global policy initiatives and cross-country experience

Capacity Development
- Public finances (PIM & PPPs; PFM; FRM; expenditure review; tax policy and revenue admin); capital and FX markets development; national accounts and price statistics; and macroeconomic modelling.
- HQ-based; CCAMTAC; STX and LTX.
- Close coordination with development partners
## Armenia: IMF Credit and Timing of Reviews Under the SBA

<table>
<thead>
<tr>
<th>Date of Availability</th>
<th>Conditions</th>
<th>Amount (millions of SDRs)</th>
<th>Percent of Quota</th>
<th>Percent of Quota (cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 12, 2022</td>
<td>Board approval of the arrangement</td>
<td>18.400</td>
<td>14.29</td>
<td>14.29</td>
</tr>
<tr>
<td>June 9, 2023</td>
<td>Observation of end-Dec 2022 performance criteria and continuous performance criteria, and completion of first review</td>
<td>18.400</td>
<td>14.29</td>
<td>28.57</td>
</tr>
<tr>
<td>December 11, 2023</td>
<td>Observation of end-June 2023 performance criteria and continuous performance criteria, and completion of second review</td>
<td>18.400</td>
<td>14.29</td>
<td>42.86</td>
</tr>
<tr>
<td>June 10, 2024</td>
<td>Observation of end-December 2023 performance criteria and continuous performance criteria, and completion of third review</td>
<td>18.400</td>
<td>14.29</td>
<td>57.14</td>
</tr>
<tr>
<td>December 11, 2024</td>
<td>Observation of end-June 2024 performance criteria and continuous performance criteria, and completion of fourth review</td>
<td>18.400</td>
<td>14.29</td>
<td>71.43</td>
</tr>
<tr>
<td>June 9, 2025</td>
<td>Observation of end-December 2024 performance criteria and continuous performance criteria, and completion of fifth review</td>
<td>18.400</td>
<td>14.29</td>
<td>85.71</td>
</tr>
<tr>
<td>November 21, 2025</td>
<td>Observation of end-June 2025 performance criteria and continuous performance criteria, and completion of sixth review</td>
<td>18.400</td>
<td>14.29</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>126.9</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Sources: Fund staff estimates and projections.
Program implementation is on track

- Quantitative Performance Criteria (QPCs), including NIR, and Fiscal Balance
- Indicative Targets (ITs), including a floor on Social Spending
- Monetary Policy Consultation Clause (MPCC)
- Structural Benchmarks (SB)
### Armenia: Structural Benchmarks

<table>
<thead>
<tr>
<th>Deadline</th>
<th>Macro Criticality</th>
<th>Responsible Agency</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiscal Policy and Fiscal Structural Reforms</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior Action</td>
<td>Ensure macro-fiscal stability</td>
<td>MOF</td>
<td>Adopt 2023 budget with an overall deficit of around 3 percent of GDP.</td>
</tr>
<tr>
<td>June 2023</td>
<td>Mobilize tax revenue</td>
<td>MOF/SRC</td>
<td>Publish a detailed assessment of tax expenditures and an action plan for their rationalization.</td>
</tr>
<tr>
<td>March 2023</td>
<td>Improve tax compliance</td>
<td>MOF/SRC</td>
<td>Amend the Tax Code to empower the SRC with authority to audit natural persons and include broader indirect audit methods.</td>
</tr>
<tr>
<td>March 2023</td>
<td>Improve tax compliance</td>
<td>DPM/CBA/MOF/SRC</td>
<td>Amend the legislation to allow exchange of bank account information for legal entities on request to verify information provided by taxpayers between the banks and SRC, and to allow SRC access to bank account information for legal entities refusing to provide it upon a court order.</td>
</tr>
<tr>
<td>March 2023</td>
<td>Improve public financial management and reduce fiscal risks</td>
<td>DPM/MOE/MOF</td>
<td>Adopt a government decree clarifying the mandate, reporting, transparency, and viability requirements for ANIF and its subsidiaries, based on the concept note developed for public sector units.</td>
</tr>
<tr>
<td>June 2023</td>
<td>Improve public financial management and reduce fiscal risks</td>
<td>DPM/MOE/MOF</td>
<td>Develop an action plan to strengthen the PIM institutional framework and processes, by identifying and addressing the bottlenecks to ensure an effective cycle of planning, budgeting, implementing, and monitoring of large capital projects.</td>
</tr>
<tr>
<td>September 2023</td>
<td></td>
<td>MOF</td>
<td>Develop a concept note on monitoring, approval, and control framework related to local governments and local government borrowing.</td>
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**Monetary Policy and Financial Sector Reforms**

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<tbody>
<tr>
<td>March 2023</td>
<td>Capital market development</td>
<td>CBA</td>
<td>Facilitate the introduction of an over-the-counter commercial trading platform for the overnight repo market.</td>
</tr>
<tr>
<td>June 2023</td>
<td>Strengthen the regulatory and supervisory framework</td>
<td>CBA</td>
<td>Develop a formal roadmap for introduction of Pillar 2 capital buffers.</td>
</tr>
<tr>
<td>November 2023</td>
<td>Strength the regulatory and supervisory framework</td>
<td>CBA</td>
<td>Prepare and submit to parliament a draft law for an enhanced bank resolution framework that is in line with the Financial Stability Board’s Key Attributes for Effective Resolution Regimes for Financial Institutions.</td>
</tr>
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**Structural Reforms**

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<tbody>
<tr>
<td>June 2023</td>
<td>Infrastructure development</td>
<td>DPM/ Moor /MTAI</td>
<td>Conduct a study to identify bottlenecks in the execution of foreign-funded projects.</td>
</tr>
<tr>
<td>September 2023</td>
<td>Improve the business environment</td>
<td>MOJ</td>
<td>Draft and submit the concept paper on the review of the legislation on bankruptcy.</td>
</tr>
<tr>
<td>September 2023</td>
<td></td>
<td>MOE</td>
<td>Expand the agricultural insurance scheme to cover more risks, regions, and crops.</td>
</tr>
<tr>
<td>June 2023</td>
<td>Enhance labor force participation and boost employment.</td>
<td>MLSA</td>
<td>Approve a costed employment strategy, including to bolster active labor market policies.</td>
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# Armenia: New Proposed Structural Benchmarks

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<td>Improve tax compliance</td>
<td>MOF/SRC</td>
<td>Amend the Tax Code to empower the SRC with authority to audit natural persons and include broader indirect audit methods.</td>
</tr>
<tr>
<td>December 2023</td>
<td>Improve efficiency of civil service compensation</td>
<td>MOF</td>
<td>Publish the terms of reference to develop software design for the implementation of a module with basic employee data as part of the new public sector accounting system of the Government Financial Management Information System (GFMIS), with the aim to improve central government wage bill data quality.</td>
</tr>
<tr>
<td>March 2024</td>
<td>Improve public financial management</td>
<td>MOF</td>
<td>Complete a functional review of the Ministry of Finance, as a step towards an eventual review of all general government institutions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MOF</td>
<td>Adopt a Concept Note for a State Ownership Policy, defining the rationale for owning SOEs and the government's role in their oversight.</td>
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## Fiscal Policy and Fiscal Structural Reforms

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<tr>
<td>December 2023</td>
<td>Mitigate real estate market risks</td>
<td>CBA</td>
<td>Conduct a thorough macro-financial stress testing exercise with an adverse scenario that implies a rise in balance sheet stress of property developers, significant deterioration of household income, and a sharp decline in house prices.</td>
</tr>
<tr>
<td>March 2024</td>
<td>Enhance monetary policy transparency</td>
<td>CBA</td>
<td>Prepare and adopt an enhanced CBA communication strategy on monetary policy.</td>
</tr>
</tbody>
</table>

## Monetary Policy and Financial Sector Reforms

## Structural Reforms

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<th>Measure</th>
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</thead>
<tbody>
<tr>
<td>December 2023</td>
<td>Improve the business environment</td>
<td>MOE</td>
<td>Approve the newly revised corporate governance code.</td>
</tr>
<tr>
<td>March 2024</td>
<td>Support export-oriented growth</td>
<td>MOE</td>
<td>Complete and approve an export strategy that identifies and streamlines bottlenecks to export expansion.</td>
</tr>
</tbody>
</table>
Thank you