June 2012
IMF Country Report No. 12/153

Republic of Armenia: Fourth Reviews Under the Extended Fund Facility and Extended Credit Facility—Staff Report; Informational Annex; Press Release on the Executive Board Discussion.

In the context of the Fourth Reviews Under the Extended Fund Facility and Extended Credit Facility, the following documents have been released and are included in this package:

- The staff report for the Fourth Reviews Under the Extended Fund Facility and Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on March 27, 2012, with the officials of the Republic of Armenia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 31, 2012. 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.

- A Press Release summarizing the views of the Executive Board as expressed during its June 15, 2012 discussion of the staff report that completed the request and/or review.

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

Financial Sector Stability Assessment
Letter of Intent sent to the IMF by the authorities of Armenia*
Memorandum of Economic and Financial Policies 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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INTERNATIONAL MONETARY FUND

REPUBLIC OF ARMENIA

Fourth Reviews Under the Extended Fund Facility and Extended Credit Facility

Prepared by the Middle East and Central Asia Department

(In Consultation with Other Departments)

Approved by Juha Kähkönen (MCD) and Thomas Dorsey (SPR)

May 31, 2012

- **Background**. Growth picked up to 4.6 percent in 2011, but is expected to moderate to just below 4 percent in 2012. Inflation should remain near the CBA's target of 4 percent. Credit growth remains strong, particularly in foreign currency. The 2011 fiscal deficit was well below program targets, reflecting restrained spending. The deficit is likely to be moderately higher in 2012, but in line with the program. The external current account deficit has declined significantly, helped by the fiscal adjustment, but remains high. The authorities will implement further business environment and tax and pension reform measures.

- **Program**. The program is on track, with all performance criteria and most indicative targets met, and most structural benchmarks implemented. The authorities are requesting that SDR 33.5 million be made available upon completion of the review.

- **Discussions**. Discussions were held March 14−27. The mission met Prime Minister Sargsyan, Central Bank of Armenia Chairman Javadyan, Minister of Finance Gabrielyan, Minister of Economy Davtyan, Minister of Energy Movsisyan, and other senior officials and representatives of the private sector, civil society, and the diplomatic community. The team comprised M. Horton (head), J. Gijón, and C. Caceres (MCD), T. Komatsuzaki (FAD), J. Thornton (SPR), and K. Fujita (MCM). G. Tolosa (Resident Representative) and A. Manookian and A. Ghazaryan (IMF office) assisted. R. Mosch (OED) joined the discussions. Ms. Elliott (MCM), team leader of the FSAP Update, participated in policy discussions during March 22–27.

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EXECUTIVE SUMMARY

Growth picked up further in 2011, led by manufacturing, mining, and services, but is expected to moderate in 2012 with the slowing in the EU and Russia. Credit expansion continues to be strong, particularly in foreign currency, and the financial sector remains well capitalized and sound. Inflation should remain near the CBA's target of 4 percent. The 2011 fiscal deficit was well below the program target, reflecting lower spending. Helped by fiscal adjustment, the external current account deficit narrowed significantly in 2011, but remains high at 11 percent of GDP. Program targets on net international reserves (NIR) were met by a comfortable margin. Risks are mainly on the downside, including a possible further weakening of activity in the Euro area. The election cycle (parliamentary elections in early May 2012 and presidential elections next February) has not yet resulted in significant pressures.

The EFF/ECF-supported program is on track, with all performance criteria (PCs) and most indicative targets (ITs) met. All but one of the structural benchmarks (SBs) were implemented, with one partly implemented and with progress on the outstanding benchmark. Staff and the authorities agreed to retain the 2012 fiscal deficit target of 3.1 percent of GDP. The authorities will continue with tax reforms to generate an additional 0.6 percent of GDP in revenues, which will reduce the need for further spending restraint.

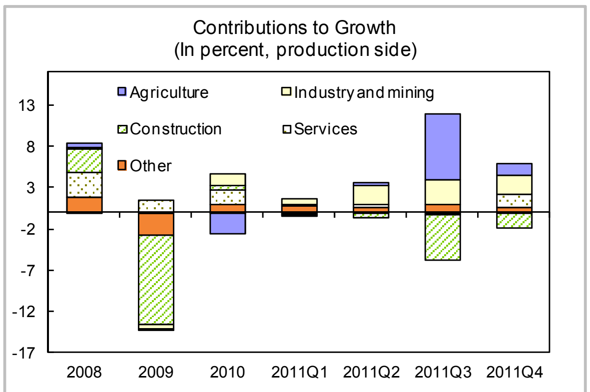
The program NIR targets for 2012 were maintained, and the CBA agreed to increase the traction of the policy rate by taking actions to limit volatility of market interest rates and reducing the corridor around the policy rate. The authorities will continue to adopt measures to safeguard the stability of the banking system, drawing on recommendations of the recent FSAP Update. The rapid decline of inflation should facilitate greater exchange rate flexibility.

Business environment reforms are proceeding and will target further measures in tax administration, customs declaration and valuation, permitting, and business and collateral registration. A "Regulatory Guillotine" initiative aimed at a significant, two-year reduction in regulations will commence in 2012. The authorities are continuing to assess options to deal with Nairit, the troubled synthetic rubber producer, which strictly minimize government exposure and use of public funds.

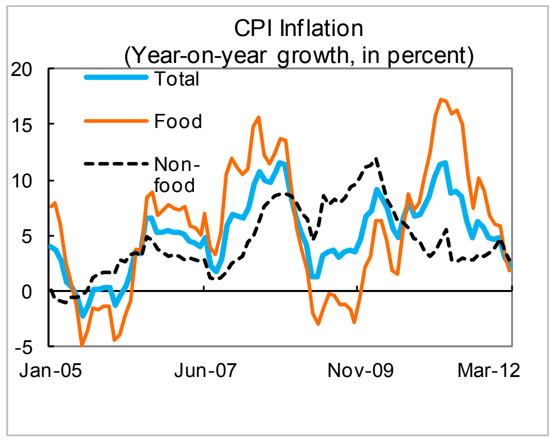
I. ECONOMIC CONTEXT

A. Recent Developments and Program Performance

1. **Performance has been sound, with a pickup of growth and lower inflation**. Growth reached 4.6 percent in 2011 and 4.7 percent in the first quarter of 2012, exceeding staff's estimate of potential growth of 4 percent, with strong performance in industry and services. This further narrowed the output gap, which staff estimates to be small, negative, and likely to close by mid 2013. While construction remains in a slump, agriculture rebounded from its near-collapse in 2010, with the recovery of remittances and improved weather. The agriculture recovery, along with favorable global price developments and appropriate policy responses, helped lower headline inflation from a peak of 11.5 percent in March 2011 to 1.9 percent in April 2012 and just 0.5 percent in May 2012, below the CBA's target range of 4 ± 1.5 percent. Core inflation has also come down in recent months to below 5 percent (y-o-y). The CBA has maintained its policy rate at 8 percent since September 2011.



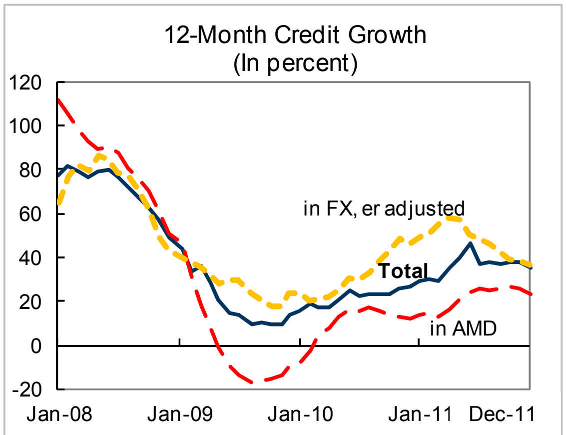
Sources: Armenian authorities.



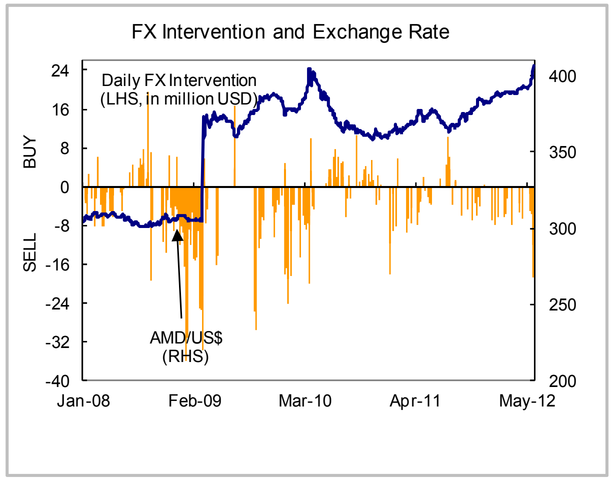
2. **Fiscal consolidation in 2011 was larger than planned**. While revenue was broadly in line with projections, expenditure was lower, reflecting better targeting of pension and social allowances, tight control of outlays on goods and services, delays in infrastructure projects, and interest savings. The deficit outturn was 2.8 percent of GDP, compared with a target of 3.9 percent and 3.6 percent projected at the Third Review.

3. **While rapid credit growth has continued, the banking sector remains sound**. Private sector credit grew by 34 percent in 2011, due to increased intermediation, which remains relatively low, and strong-but-moderating financial inflows. Liabilities to foreign banks have declined since September, but IFI lending to Armenian banks has continued to rise. Deposit and credit dollarization remains high, and while foreign currency lending to unhedged borrowers poses risks, the banking sector benefits from ample liquidity and remains well capitalized. As part of its de-dollarization efforts, the CBA further adjusted the currency composition of required reserves in December, so that the 12 percent reserve requirement for FX deposits is now held fully in drams, up from 75 percent previously.

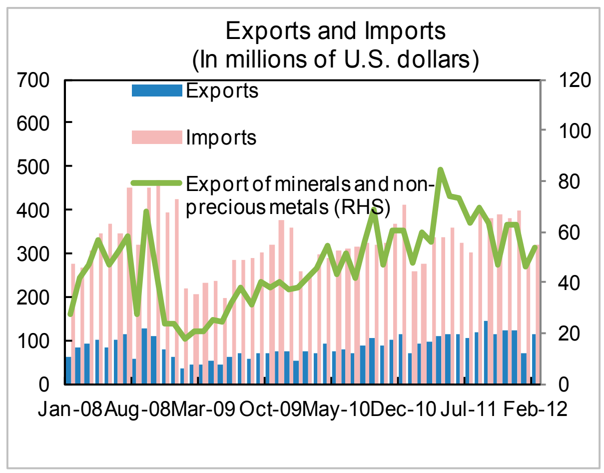
System-wide capital adequacy exceeded 18 percent in late 2011, with no bank below 12 percent.



Sources: Armenian authorities.



4. **External imbalances have been reduced, although the current account deficit remains high.** A substantial consolidation of the external current account deficit last year, by nearly 4 percentage points of GDP, was driven by a further recovery of remittances and supported by high metals prices. Despite moderating late in the year, banking inflows performed strongly, compensating for lower-than-expected FDI, as some mining projects did not advance, and for some largely temporary delays in donor funding. The dram has depreciated by approximately 10 percent in nominal terms against the dollar since mid-2011, and has held steady in real and nominal effective terms. The dram had been stable against the dollar through the first four months of 2012, but has weakened somewhat after parliamentary elections in May. CBA intervention, aimed at limiting volatility and stemming sharp pressures, has consisted largely of foreign exchange sales.



5. **An election cycle is underway**. Parliamentary elections took place on May 6. The Republican Party of Armenia (RPA), led by President Serzh Sargsyan and Prime Minister Tigran Sargsyan, won an absolute majority of the 131 seats in the National Assembly. The elections were competitive (turnout exceeded 60 percent) and peaceful, in contrast to violence that followed presidential polling in 2008. Presidential elections are scheduled for February 2013.

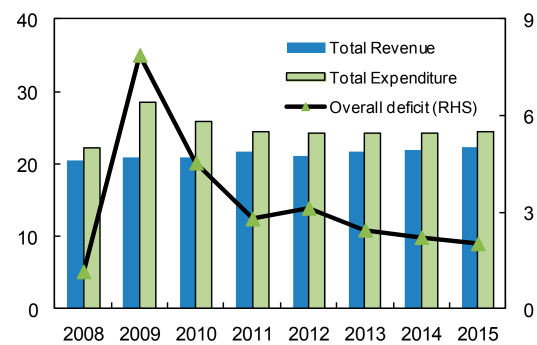
6. **The Fund-supported program remains on track.** All continuous and quantitative PCs and most ITs for end-December 2011 were met. The end-2011 fiscal deficit and NIR targets were met by particularly wide margins. All but one of the SBs were implemented, with one partly implemented and progress made on the outstanding measure.[1] Preliminary indications are that most of the end-March 2012 ITs were also met; the ceiling on reserve money and the floor on social spending appear to have been missed by very small margins.

B. Short-and Medium-Term Outlook and Risks

7. **Weaker global conditions are expected to ease growth to 3.8 percent in 2012, just below potential.** Mining, manufacturing, and services are likely to remain the main drivers, with construction expected to remain depressed and agriculture continuing to confront significant structural impediments.[2] Over the medium term, growth is expected to remain at around 4 percent. Headline inflation should return to and remain within the CBA's target band (4 ± 1.5 percent). Credit growth is expected to remain strong in 2012, moderating somewhat from the high rate of growth in 2011.

8. **The 2012 budget envisages an overall deficit of 3.1 percent of GDP.** As temporary factors contributed to overperformance in 2011, the deficit target is somewhat higher than the 2011 outturn, but still in line with the program. With gains from improved targeting of social spending in 2011 and higher revenues from an ambitious tax policy package, the authorities are increasing pension and family allowances and improving medical and other benefits for the core civil service. The authorities also expect to catch up on delays in large infrastructure projects, although uncertainty remains in their execution. The authorities are formulating the medium-term expenditure framework for presentation to the new parliament in July; fiscal consolidation is set to continue in 2013–15, helping stabilize and begin to reduce public debt.

Fiscal Revenue and Expenditure
(In percent of GDP)



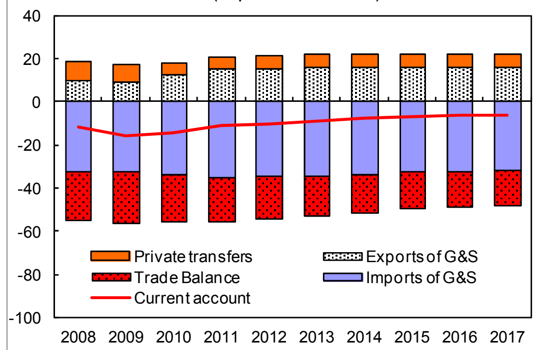
Sources: Armenia authorities; and Fund staff estimates.

[1] The outstanding benchmark, on legal changes to enable the full integration of the wide range of social protection initiatives, is progressing but requires additional work after the conclusion of a successful pilot project (e.g., on inventorying programs, improving information sharing across ministries and agencies, and facilitating cooperation with NGOs).

[2] See Box 1 of IMF Country Report 11/366 and Box 5 of Country Report 11/178 for discussions of the construction and agriculture sectors, respectively.

9. **The external current account deficit is projected to decline to 10 percent of GDP in 2012 and 8.7 percent of GDP in 2013**. As the pace of fiscal consolidation is slowing, the continuing adjustment will be supported by further growth of remittances and improvements in the business climate, which should spur domestic competition and productivity gains, FDI, and export growth, including among non-traditional exports (e.g., information technology). Flexibility of the dram should also facilitate the adjustment, and pension and insurance reforms are expected to raise private savings. Exports remain vulnerable to global price fluctuations, given the dependence on mining and metals. Price forecasts point to subdued growth of exports in dollar terms in 2012, although volumes are expected to grow at a robust rate. While slower than in 2011, continued healthy growth in Russia, the source of almost 90 percent of remittances to Armenia, should ensure a continued increase in private transfers and income from migrants. Projections for FDI and banking inflows are cautious, however, reflecting the uncertain global environment.

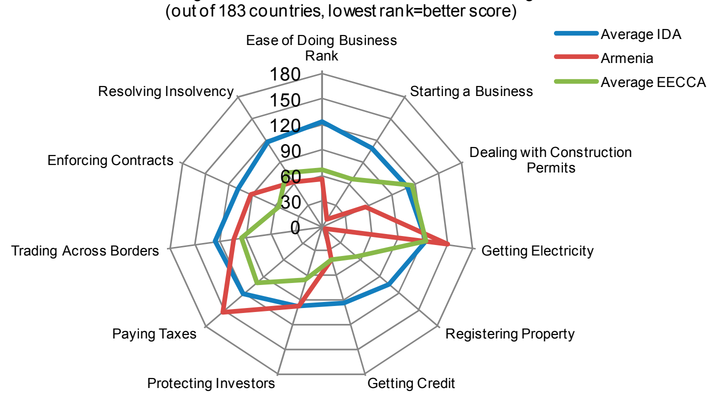
Current Account and Key Components
(In percent of GDP)



Sources: Armenian authorities; and Fund staff estimates.

10. **Business environment reforms are continuing.** These focus on the areas of business regulation and property rights covered by the World Bank's "Doing Business" (DB) indicators (e.g., starting a business, permitting, resolving insolvency, trading across borders), and on improving the overall investment climate. A "Regulatory Guillotine" initiative is being launched aiming to sharply reduce the regulatory burden over the next two years. Preparatory work for the Deep and Comprehensive Free Trade Agreement with the EU should provide a further push. Paying taxes remains a weak aspect of the business environment—Armenia ranks just 153rd globally in this area in DB, compared with 55th overall—and actions focus on electronic filing (to improve efficiency and limit corruption) and risk-based audit. Finally, the

2012 Doing business indicators Armenia and IDA average [1,2],
(out of 183 countries, lowest rank=better score)



1/ EECCA Average (i.e. Eastern Europe, Caucus and Central Asia) includes 23 countries: Albania, Armenia, Azerbaijan, Bosnia, Croatia, Czech Republic, Estonia. Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Slovakia, Tajikistan, Ukraine

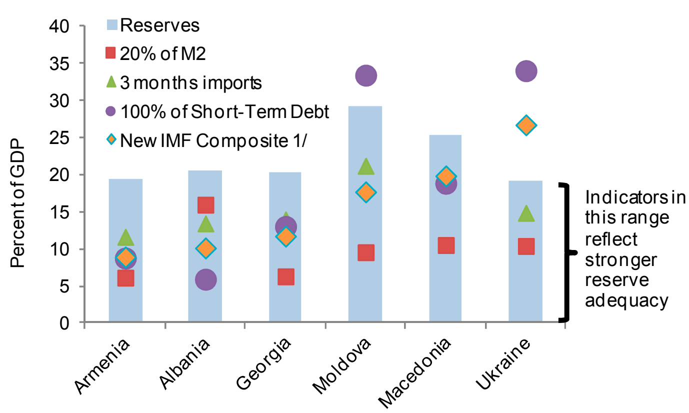
2/ IDA Average includes 43 countries: Angola, Armenia, Bangladesh, Benin, Bolivia, Bosnia, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Chad, Cote d'Ivoire, Ethiopia, Gambia, Georgia, Ghana, Haiti, Honduras, India, Kenya, Kyrgyz Republic, Madagascar, Malawi, Mauritania, Moldova, Mongolia, Mozambique, Nepal, Nicaragua, Nigeria, Pakistan, Rwanda, Senegal, Sri Lanka, Tajikistan, Timor-Leste, Uganda, Vietnam, Yemen, Zambia.

Source: Doing Business Indicators Database, the World Bank.

competition committee has further stepped up enforcement actions against abuse of market dominance, with actions in 2012 so far focusing on fuel and pharmaceutical suppliers.

11. **The key downside risks are a further slowing of the global economy and spillovers from Europe**. These would have consequences for exports, capital flows, and remittances. Buffers remain reasonably strong. For example, gross reserves exceed 4½ months of imports and are also sound in comparison with other benchmarks (e.g., short- and longer-term debt and equity liabilities), although they are projected to decline below the 4-month threshold from 2013. Public debt is not excessive and is sustainable, with Armenia at low risk of external debt distress.[3] Other risks include election-related pressures or slippages and potential regional conflicts (Nagorno-Karabakh, Iran).

Reserve Adequacy Indicators (in percent of GDP)



1/New IMF Composite Reserve Adequacy Metric composed of 30% of short-term debt, 10% of longer-term debt and equity liabilities, 5% of M2, and 5% of exports.
Sources: Armenian authorities; and Fund staff estimates.

II. Policy Discussions

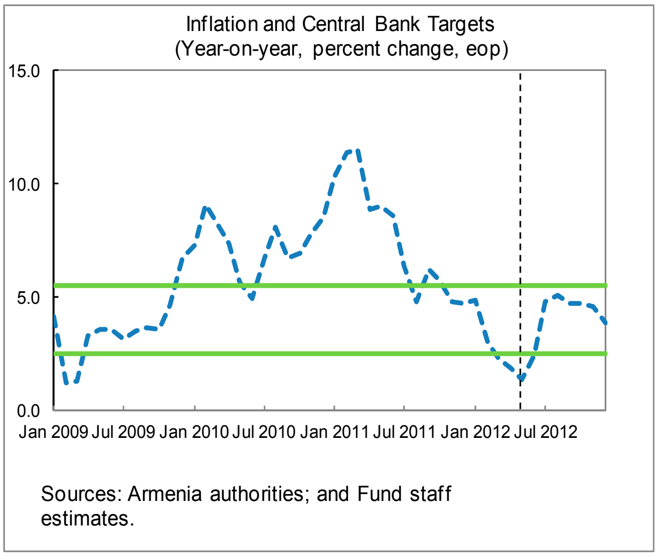
12. **Key objectives for 2012–13 are to support growth and poverty reduction, minimizing possible disruptions to the recovery while ensuring low inflation**. Achieving these goals will require: (i) prudent monetary policy; (ii) exchange rate flexibility; (iii) higher tax revenues to support priority investment and social spending; and (iv) advancing structural reforms. Policies will need to be vigilant and responsive to possible spillovers from Europe. Discussions took place against the backdrop of upcoming parliamentary elections, which acted to limit the extent of new commitments, although the authorities anticipated broad policy continuity.

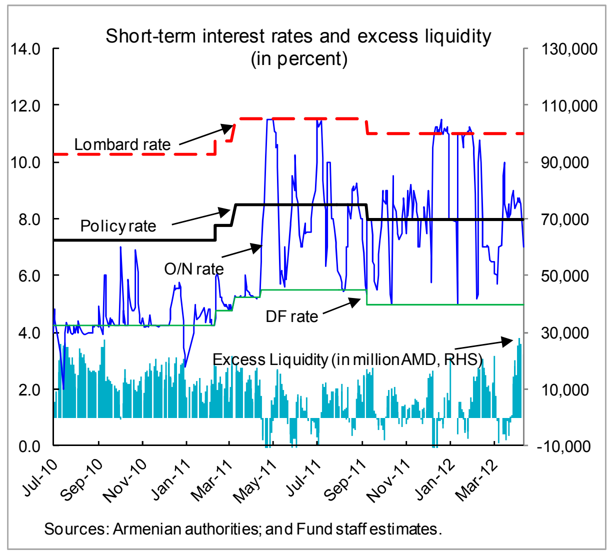
A. Monetary and Exchange Policy and the Financial Sector

13. **The CBA continues to focus on price stability**. Inflation is projected to remain below target in the first half of 2012, before moving closer to the mid-point of the band. With the output gap expected to remain small and negative, staff and the CBA agreed that the current interest rate level remains appropriate. However, if downside risks materialize, the CBA stands ready to cut the policy rate, unless sharp pressures on the dram also emerge.

[3] See the joint World Bank-IMF debt sustainability analysis in Country Report 11/366.

14. **The CBA remains committed to its inflation targeting regime and to strengthening the interest rate channel.** Interbank interest rates exhibited significant volatility in late 2011 and early 2012, as the CBA did not sufficiently accommodate the increase in dram liquidity demand with the change in currency denomination of required reserves. The authorities acknowledged the need to further improve liquidity management to reduce volatility and better guide interbank rates. They noted that they had expanded monetary instruments—e.g., introducing deposit auctions—and were providing more information to banks on future liquidity conditions. Staff proposed narrowing the interest rate corridor around the policy rate from 600 to 300 basis points. The CBA intends to take this action after introduction of a term-interbank trading platform, expected by mid-2012, to prevent the narrower corridor from discouraging interbank transactions. Drawing on recent IMF MCM-RES technical assistance, the CBA is also enhancing its modeling and forecasting capacity and considering organizational changes to bolster policy formulation and communications.





15. **The CBA accepted the major recommendations of the FSAP Update.** While the FSAP found that the CBA has a sound stability oversight framework, it recommended reforms to further improve regulatory and supervisory practices, including further utilization by the CBA of internal risk assessments of banks, introduction of requirements for banks to report immediately on important changes to operations, and clarification of responsibilities of the CBA and the government in crisis management (Box 1). The CBA stressed the importance of flexibility in its crisis response capacity, but agreed that emergency assistance should be provided to solvent organizations, while assistance that could eventually require budget support should involve consultation with the government. Finally, the FSAP Update and a joint Bank-Fund debt management TA mission that took place in December made recommendations to strengthen the government securities market (Box 2).

Box 1. Armenia: FSAP Update[1]

In February, a joint Bank-Fund mission undertook an update of the 2005 FSAP evaluation. The FSAP team found the financial system to be resilient to a repeat of the contraction-devaluation shock of 2009, but noted vulnerabilities from rapidly growing bank credit, particularly in FX. The mission found that the CBA's supervision of the financial sector is generally robust, but noted that further improvements to the regulatory and crisis management frameworks are needed. Major recommendations are to:

- Introduce a separate liquidity coverage ratio (LCR) for FX: Armenian banks are highly liquid but tend to hold liquid assets more in dram than FX. Given the CBA's limited capacity as a lender of last resort in FX, the introduction of LCRs by major currencies is warranted.
- Introduce Pillar II supervisory techniques: A more frequent and structured dialogue with banks would help the supervisor assess risks that are difficult to capture with capital adequacy ratios alone. These include concentration, interest rate, and indirect foreign exchange risk.
- Amend the law to require banks to report immediately changes to operations that may have a material adverse impact on the bank: At present there are no legal obligations for banks to notify the supervisor of these changes.
- Clarify and strengthen CBA powers to intervene and resolve problem banks: Allowing for clearer and earlier triggers for provisional administration to conduct resolution operations, reducing procedural time delays for provisional administration, and providing the CBA with more explicit power to instruct shareholders to raise capital would enable the CBA to intervene problem banks at an early stage of distress.
- Establish a sound framework for investment policy and asset manager regulations for pension funds and develop pension regulation capacity at the CBA: These are key elements for a successful pension reform from financial stability perspective.

The authorities were receptive to the mission's findings and recommendations, which they found to be broadly consistent with their own analysis, objectives, and development plans.

[1]Prepared by K. Fujita.

16. **The CBA agreed that it should further enhance tools for managing risks associated with foreign exchange (FX) lending**. While noting that the FSAP Update found the Armenian banking sector to be sound and resilient to shocks, staff drew on its findings to urge the CBA to introduce liquidity coverage ratios (LCRs) by currency denomination and to collect additional information on borrowers in FX. The CBA agreed and will phase in the measures to mitigate compliance costs. It will first introduce lower LCRs for FX than for dram and gradually increase the FX LCR. The CBA will initiate data collection on potential currency mismatches of large borrowers and study expanding the coverage to smaller loans.

Box 2. Armenia: Developing the Government Securities Market[1]

Armenia has a well-organized primary market for government securities, but there are still a number of challenges: (i) the market is dominated by commercial banks; (ii) secondary market activities are small; and (iii) due to these constraints, yield curves tend to be steep. The authorities have been aware of these challenges and asked for TA from the Fund and the Bank to provide guidance. The TA found that market development is not inhibited by regulatory factors or lack of infrastructure, and provided recommendations to improve debt management:

- **Consolidate benchmark securities.** In addition to short-term bills, the government regularly issues securities of five different maturities ranging from 3–20 years. It then creates "benchmark" securities for each maturity by reopening the same issuance to maintain secondary market liquidity. However, there are still too many benchmarks for a market with small capitalization.

- **Explore issuance of index-linked bonds in consultation with the market.** Pension reforms could spur demand for index-linked bonds. However, as the introduction of new securities may invite further market segmentation, the authorities should consult with market participants to assess costs and benefits of index-linked bonds before going forward.

- **Review rights and obligations of primary dealers.** To increase incentives for secondary market transactions, the authorities could provide additional rights (e.g., post-auction non-competitive subscription at the average successful bid price), while increasing obligations (e.g., minimum subscription in primary auctions).

[1]Prepared by K. Fujita.

17. **Staff stressed the need for greater exchange rate flexibility.** Staff observed that exchange rate movements had reduced in recent months and also noted that interventions were largely on the sales side. Staff stressed the need to avoid sending a signal about a particular exchange rate level and noted that inflationary pressures—a past concern raised by the authorities—had moderated. The authorities agreed, but underscored that stability of the dram reflected market forces. Contrary to staff's views, they argued that developments in 2011 had reduced or eliminated overvaluation, and emphasized the importance of structural measures to support external adjustment. Staff stressed that flexibility of the dram would be an essential element in reducing external imbalances. It was agreed that interventions should be limited to smoothing excessive volatility and should not attempt to resist fundamental trends.

18. **Staff and the authorities agreed on the need for strong foreign exchange reserves, in light of vulnerabilities and upcoming debt repayments**. The NIR targets for 2012 were therefore reconfirmed, with reclassification of a small share of CBA deposits. The authorities are making determined efforts to ensure that the NIR targets will be met, and they will strengthen reserve management guidelines in consultation with staff.

B. Fiscal Policy

19. **Although there was sizable fiscal overperformance last year, staff and the authorities agreed to retain the 2012 deficit target**. The authorities noted that budgetary savings would not necessarily carry forward, as lower spending through better targeting of pensions and social allowances in 2011 would be reflected in higher individual benefit payments in 2012 and in improved benefits for core civil service staff, important for retention. They also expected that delays in major road projects would be overcome (although compression of capital spending will continue). The projections also build in a higher interest bill. Staff agreed, noting that while faster fiscal adjustment would be desirable to limit debt accumulation, the current fiscal path is sufficient, and expenditure is already significantly compressed. Further cuts this year could threaten pro-poor and pro-growth outlays. In addition, discussions were taking place early in the budget year, with risks on both sides: risks to revenues from the weaker outlook and implementation of new tax measures (Box 3) and prospects for further underspending on infrastructure. Additional financing has been identified since the Third Review from the World Bank and possibly the ADB. The authorities noted that this would constitute a welcome reserve, and could be used to reduce domestic financing if risks did not materialize.

20. **Discussions also took place on the medium-term fiscal path, with both staff and the authorities underscoring the need to secure debt and external sustainability.** Staff emphasized the importance of continued consolidation of the headline deficit to reach 2 percent of GDP by 2015. This target anchors fiscal policy by stabilizing debt, with a view to further reducing the deficit and debt in subsequent years.[4] Staff also pointed out that the path should take into account pension reform costs, implying that additional offsetting revenue (or spending) measures would be needed from 2014. While in agreement on the

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[4] The debt stabilizing deficit level is estimated by staff at 3 percent of GDP (see Appendix I of Country Report 11/366). A headline deficit of 2 percent would be consistent with this level, in light of recurrent external net lending of approximately 1 percent of GDP recorded below the line in accordance with *GFS2001*.

Box 3. Armenia: Tax Policy and Administration Measures[1]

Wide-ranging tax measures in 2012 aim to increase the tax-to-GDP ratio by 0.6 percent. A tax policy strategy has been finalized for 2013–15 and a tax administration strategy for 2012–14. Tax policy changes in 2012 include the following:

- **Personal income tax** (PIT). An increase in the PIT rate and higher social security contributions for salaries above AMD 2 million.
- **Corporate income tax** (CIT). Introduction of thin capitalization provisions to limit deduction of interest payments and address tax avoidance by excessive debt financing.
- **Mining.** A profit-based redesign of the royalty for metallic minerals, complemented by a limit on the length and coverage of the fiscal stability clause. Introduction of an extraction-based royalty for non-metallic minerals. Increase in tax rates for building materials.
- **Excises**. Increased excise rates for domestically-produced (by 20–58 percent) and most imported (20–35 percent) alcoholic beverages, and domestic (14 percent) and imported (7 percent) filtered cigarettes. New excise taxes on engine oil and luxury vehicles/SUVs.
- **Presumptive taxes**. Increased presumptive tax rates on casinos and gambling activities. Increased presumptive tax rates on restaurants, and switch to a patent fee regime.
- **Customs duty.** Introduction of a customs duty on car parts.

Tax Policy Strategy. The tax strategy paper evaluates recommendations by IMF FAD TA. A number of important but politically-sensitive measures are planned for 2015, including PIT on military wages, removal of agricultural exemptions in the CIT, an increase in property tax rates for SUVs, elimination of VAT exemptions on various products. Some measures, such as the inclusion of interest income earned on government securities in taxable income, elimination of VAT exemptions on diesel fuel, and inflation-indexed increases in excise taxes, were excluded. Staff urged the authorities to consider bringing forward measures from 2015 and to reconsider excluded measures.

Tax Administration Strategy. The tax administration strategy focus on increasing the quality of taxpayer services by expanding the scope of e-filing and improving taxpayer service centers and call centers. This would be supported by a reengineering of key business processes and IT systems (with support of the World Bank and USAID) and rationalizing field tax offices and inspectorates. The State Revenue Committee (SRC) would also continue to introduce more modern mechanisms of tax control by improving risk-based audit selection and mechanisms for detecting tax evasion. Finally, HR management and internal control mechanisms would be strengthened through introduction of an internal audit unit and training.

[1]Prepared by T. Komatsuzaki.

importance of consolidation and debt sustainability, the authorities proposed higher deficits for 2013–15 than under the existing program path to allow for higher social and infrastructure spending. However, the proposal would not have reached the debt stabilizing deficit level by 2015, and staff and the authorities agreed instead on small increases in 2013 and 2014 only. This would allow for use of additional concessional financing to enhance social and capital spending. The deficit path also takes into account pension reform costs, although offsetting measures will need to be identified.

21. **Tax policy and administration measures need to be further advanced.** The authorities target annual increases of tax revenue of 0.4 percent of GDP in 2013–2015. However, while the tax strategy paper finalized in December outlines actions during those years, staff considers that additional measures will be needed in 2013–14. Staff proposed consideration of further real increases in excise taxes, an extension of excises to other fuels, and removal of VAT exemptions. The authorities were noncommittal, noting that specific tax policy decisions would need to be considered in the context of work on the 2013 budget in the fall. The authorities will propose to parliament transfer pricing legislation based on OECD guidelines. They are ready to take action to reduce the backlog of VAT credits and ease restrictions on new refunds, but expressed concern with one-time costs, which they noted might amount to as much as 3 percent of GDP. On tax administration, while welcoming ongoing efforts to improve taxpayer services and e-filing, staff suggested consideration of a tax ombudsman and taxpayer bill of rights to improve transparency and taxpayer treatment, especially SMEs. The authorities expressed interest, but noted that they would need to assess how these institutions would fit into Armenia's legal and institutional framework.

Fiscal Deficit Path
(in percent of GDP)

	2011	2012	2013	2014	2015
Third Review	3.9	3.1	2.3	2.0	2.0
Proposed	2.8	3.1	2.6	2.3	2.0

22. **The authorities are accelerating preparations for introducing a mandatory funded pension system in 2014**. The required changes are wide-ranging and complex, and there are considerable uncertainties, including around potential fiscal costs (Box 4). The authorities are working to lay out the regulatory framework for pension fund operations and prudential norms. To ensure that preparations are completed on a timely basis and that stakeholders are well informed, staff and the authorities agreed that progress reports should be issued frequently and that capacity to produce projections and cost estimates be enhanced.

C. Structural Issues

23. **Staff noted that ambitious structural reforms are key to private investment-led growth, employment creation, poverty reduction, and addressing imbalances**. The authorities indicated that in addition to the priority areas of tax reform and financial sector stability, regulatory streamlining is receiving critical attention. They are implementing a new action plan for 2012 with more than 50 measures to improve the business environment and governance, including simplifying tax payments for SMEs, facilitating trade through customs measures, easing construction permitting, strengthening collateral arrangements to improve

Box 4. Armenia: Pension Reform[1]

Armenia's new pension system will comprise three pillars. The first pillar will replace the current pay-as-you-go system, and the second and third pillars will be mandatory and voluntary funded pensions, respectively. Major legislative and operational efforts will be required in 2012–13 to have the new system operational by the 2014 target date. This includes finalizing legislation and regulations, attracting reputable asset managers, widening the investable instruments in the capital market, upgrading the SRC's IT system to track individual contribution accounts, and capacity building in the Ministry of Finance to assess the costs and benefits of the new system.

Workers below 40 years old at the time of introduction of the second pillar will contribute 5 percent of their gross wage to their personal accounts. This will be matched by a budget contribution (with a cap for higher salaries). The fiscal cost of the contributions should be 0.4–0.5 of GDP in 2014–15 (requiring adjustment elsewhere), reaching a peak of 0.7 percent of GDP in 2020s.[2] There are no fiscal costs associated with the voluntary pillar (e.g., from matching contributions or guarantees).

There are several investment restrictions for the voluntary pillar, including currency (not more than 50 percent in FX), bank deposits (not more than 50 percent) and Armenian government securities (60 percent). The investment regulations for the second (mandatory) pillar are under preparation. These will be stricter than the voluntary pillar to ensure a more conservative allocation.

The reform is expected to trigger the development of local capital markets, although substantial funds will flow into treasury bills (growing from 0.8 percent of GDP in 2014 to 1.5 percent in 2018).

1/ Prepared by A. Manookian and G. Tolosa.
2/ Based on estimates from the USAID/PALM project.

access to credit, simplifying notary requirements to reduce costs, and reducing procedures for contract dispute resolution and company liquidation. The authorities are embarking on a high-profile "Regulatory Guillotine" initiative, with support of several bilateral and multilateral partners and involvement of the private sector. The aim is to reduce sharply the number of regulations over two years.

24. **The authorities are moving cautiously to deal with Nairit, Armenia's largest industrial enterprise**. Discussions are underway with Itera, a gas producer in the region, to take ownership and invest in the firm, possibly on the basis of a comprehensive feasibility study by a leading international engineering firm. The authorities have kept Fund and the World Bank staff well informed and pledged to continue to do so. Staff continued to urge that a solution be found that considers all options for the plant and strictly minimizes government exposure and use of public funds.

III. Program Issues

25. **Program design and monitoring remain broadly unchanged.** No changes are proposed to the June PCs, while the authorities are requesting conversion of December ITs into PCs. New structural benchmarks target policing of transfer pricing, rephased timing for integration of social protection services, improved analysis of pension reform costs, and enhanced management of financial sector risks. Other new benchmarks aim at reducing regulations and further strengthening the legal framework for competition policy. Capacity to repay is strong, supported by an adequate level of reserves. The significant financing gap for 2013 should be closed in the coming months, as ongoing discussions with development partners are expected to translate into concrete commitments. The authorities signaled likely interest in a successor program to provide a framework to continue reforms and adjustment. An EPA update would be prepared for consideration by the Board later in 2012.

IV. Staff Appraisal

26. **Policies continue to deliver on program objectives, although challenges and vulnerabilities remain**. Growth has picked up and, although expected to moderate in 2012, should remain near potential. Inflation has moderated and should remain subdued. Private inflows continue to recover toward pre-crisis levels, and banking flows have been robust, although they have moderated in recent months. Business environment reforms are progressing, although considerable structural challenges remain. Fiscal consolidation is contributing to external adjustment, although vulnerabilities are significant, with an uncertain global outlook and sizable downside risks stemming from Europe. The authorities are to be commended for containing election-related spending pressures.

27. **The positive findings of the FSAP Update are noteworthy**. The financial sector and supervisory framework are sound. The CBA is mindful of risks from dollarization and high FX credit growth. To this end, its commitment to introduce FSAP recommendations to mitigate FX risks (enhancing monitoring of unhedged borrowers and new FX liquidity coverage ratios) is welcome.

28. **Based on the expected output and inflation dynamics, the current monetary policy stance remains broadly appropriate**. The CBA's commitments to better manage liquidity and interest rate volatility in the inflation targeting framework and to continue to improve communications are welcome. The authorities' efforts to increase the traction of the policy rate by narrowing the CBA's interest rate corridor will be helpful. In addition, greater exchange rate flexibility would help enhance the monetary policy transmission mechanism by reducing dollarization and pass-through.

29. **Fiscal consolidation has been decisive, but needs to continue with support from sustained revenue mobilization efforts**. The 2012 fiscal framework incorporates two key initiatives: higher revenues from tax policy changes and administration reforms, and targeted social spending initiatives, including higher social allowance and pension benefit payments

and enhanced civil service compensation. Further deficit reduction will be necessary to reinforce debt sustainability and restore buffers. It is encouraging that the authorities plan further improvements in the tax-to-GDP ratio. Revenue gains would also provide important fiscal space for stepped-up social and capital spending. These plans need to be backed, however, by concrete and front-loaded measures. Finally, pension reforms offer the prospect of mobilizing long-term savings and financing, beneficial for the real economy. However, the reforms are complex and need to be well managed. Also, pension reform costs will need to fit within the overall fiscal envelope and deficit path. Once again, sustainably raising tax revenues will be imperative.

30. **While external consolidation has been welcome, more remains to be done**. The significant decrease of the external current account deficit in 2011 was supported by fast-growing exports and remittances and fiscal adjustment. However, the pace of fiscal consolidation will moderate, and greater efforts are needed to improve productivity and support diversification of exports. Enhanced exchange rate flexibility would also help, and would be particularly important if the global environment deteriorates and external pressures emerge. The authorities' reaffirming of the program NIR targets for 2012 is welcome.

31. **Despite the pick-up of growth, ambitious, broad-based structural reforms are needed to ensure sustainable, private investment-led growth**. While Armenia has made important improvements in doing business indicators, these have yet to be translated into a better investment climate and competitiveness. Planned reforms to sharply reduce the regulatory burden, enhance transparency and limit arbitrary application of laws, step up competition enforcement, and further improve tax and customs administration services will help, although a decisive breakthrough remains to be secured. The cautious approach taken by the authorities to address concerns with Nairit is commendable.

32. **Staff recommends completion of the Fourth Review.**

Table 1. Armenia: Selected Economic and Financial Indicators, 2008–15

	2008	2009	2010	2011		2012	2013	2014	2015
	Act.	Act.	Act.	EBS/11/170	Prel.	Proj.	Proj.	Proj.	Proj.
National income and prices									
Real GDP (percent change)	6.9	-14.1	2.1	4.6	4.6	3.8	4.0	4.0	4.0
Gross domestic product (in billions of drams)	3,568	3,142	3,502	3,871	3,819	4,172	4,533	4,903	5,303
Gross domestic product (in millions of U.S. dollars)	11,662	8,648	9,371	10,126	10,251	10,553	11,055	11,673	12,351
Gross domestic product per capita (in U.S. dollars)	3,606	2,647	2,840	3,039	3,076	3,135	3,252	3,400	3,562
CPI (period average; percent change)	9.0	3.5	7.3	7.8	7.7	3.9	4.2	4.0	4.0
CPI (end of period; percent change)	5.3	6.7	8.5	4.7	4.7	4.2	4.0	4.0	4.0
GDP deflator (percent change)	5.9	2.6	9.2	5.7	4.3	5.3	4.5	4.0	4.0
Poverty rate (in percent) 1/	27.6	34.1	…	…	…	…	…	…	…
Investment and saving (in percent of GDP)									
Investment	43.8	33.8	31.3	33.0	30.8	30.7	31.5	31.8	32.3
National savings	32.0	18.0	16.7	20.8	19.8	20.7	22.8	24.2	25.8
Money and credit (end of period)									
Reserve money (percent change)	5.3	13.8	-0.8	17.4	32.3	6.2	…	…	…
Broad money (percent change)	2.4	16.4	10.6	19.0	23.6	15.5	…	…	…
Velocity of broad money (end of period)	5.0	3.8	3.8	3.6	3.4	3.2	…	…	…
Commercial banks' 3-month lending rate (in percent)	17.9	19.1	17.7	…	…	…	…	…	…
Central government operations (in percent of GDP)									
Revenue and grants	20.5	20.9	21.0	21.7	21.9	21.3	21.9	22.0	22.4
Of which: tax revenue	16.8	16.1	16.2	16.3	16.5	17.1	17.5	17.9	18.3
Expenditure 2/	22.2	28.6	25.9	25.3	24.7	24.5	24.5	24.4	24.4
Overall balance on a cash basis	-1.2	-7.9	-4.5	-3.6	-2.8	-3.1	-2.6	-2.3	-2.0
Public and publicly-guaranteed debt (in percent of GDP)	16.1	40.2	39.2	42.0	40.6	42.3	42.1	41.5	41.9
Share of foreign currency debt (in percent)	84.0	88.9	87.4	87.5	87.1	87.1	83.2	79.5	76.7
External sector									
Exports of goods and services (in millions of U.S. dollars)	1,757	1,336	1,937	2,295	2,405	2,527	2,712	2,900	3,090
Imports of goods and services (in millions of U.S. dollars)	-4,748	-3,683	-4,212	-4,639	-4,790	-4,920	-5,111	-5,290	-5,491
Exports of goods and services (percent change)	-1.1	-24.0	45.0	18.5	24.1	5.1	7.3	7.0	6.5
Imports of goods and services (percent change)	32.3	-22.4	14.4	10.1	13.7	2.7	3.9	3.5	3.8
Current account balance (in percent of GDP)	-11.8	-15.8	-14.7	-12.2	-10.9	-10.0	-8.7	-7.6	-6.6
FDI (net, in millions of U.S. dollars)	940	725	562	652	447	498	538	578	624
External debt (in percent of GDP)	29.5	57.8	64.6	65.5	65.9	67.6	65.3	62.6	61.0
o.w. public debt (in percent of GDP) 3/	13.6	35.7	34.2	36.7	35.4	36.9	35.0	33.0	32.2
Debt service ratio (in percent of exports of goods and services) 3/	3.1	5.4	4.7	4.7	4.5	10.2	15.6	10.1	6.4
Gross international reserves (in millions of U.S. dollars) 4/	1,407	2,004	1,866	1,806	1,869	1,759	1,661	1,545	1,670
Import cover 5/	4.6	5.7	4.7	4.5	4.6	4.1	3.8	3.4	3.5
Nominal effective exchange rate (percent change) 6/	6.3	-8.4	-2.6	…	0.3	…	…	…	…
Real effective exchange rate (percent change) 6/	8.7	-7.5	1.3	…	6.9	…	…	…	…
End-of-period exchange rate (dram per U.S. dollar)	307	378	363	…	385.8	…	…	…	…
Average exchange rate (dram per U.S. dollar)	306	363	374	…	372.5	…	…	…	…
Memorandum item:									
Population (in millions)	3.2	3.3	3.3	…	3.3	…	…	…	…

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

1/ From 2008, the poverty rate is computed using a different methodology based on the new household survey.
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, 2009–17

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Act.	Act.	Prel.	Projections					
Current account	-1,367	-1,373	-1,120	-1,058	-961	-891	-813	-785	-813
Trade balance	-2,081	-2,033	-2,087	-2,097	-2,104	-2,122	-2,127	-2,186	-2,282
Exports, fob	749	1,175	1,578	1,618	1,730	1,840	1,956	2,094	2,259
Imports, fob	-2,830	-3,208	-3,665	-3,715	-3,834	-3,962	-4,083	-4,281	-4,541
Services (net)	-266	-242	-299	-296	-295	-268	-274	-271	-279
Credits	587	762	827	909	982	1,061	1,134	1,212	1,291
Debits	-853	-1,004	-1,126	-1,205	-1,277	-1,328	-1,408	-1,483	-1,569
Income (net)	167	339	555	635	674	730	769	811	855
Transfers (net)	814	563	711	700	765	769	819	860	892
Private	733	477	563	636	687	742	794	845	892
Official	81	86	148	64	78	27	25	15	0
Capital and financial account	1,560	1,058	1,045	953	882	927	963	1,049	1,144
Capital transfers (net)	89	108	96	67	80	91	96	100	102
Foreign direct investment (net)	725	562	447	498	538	578	624	674	728
Portfolio investment (net)	-4	11	-10	-11	1	6	12	13	14
Public sector borrowing (net)	886	194	152	302	165	146	117	138	170
Disbursements	907	219	180	373	243	228	235	269	325
Amortization	-21	-25	-28	-71	-78	-82	-118	-131	-155
Other capital (net)	-136	184	362	97	98	106	114	123	130
Errors and omissions	-39	18	-13	0	0	0	0	0	0
Overall balance	155	-298	-88	-105	-79	36	150	264	331
Financing	-155	298	88	-45	-180	-36	-150	-264	-331
Gross international reserves (increase: -) 1/	-597	138	-4	110	98	116	-125	-225	-274
Use of Fund credit, net	442	160	92	-156	-278	-151	-25	-39	-57
Purchases/disbursements	466	181	114	…	…	…	…	…	…
Repurchases/repayments	-23	-22	-23	-156	-278	-151	-25	-39	-57
Exceptional financing	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	150	259	0	0	0	0
Identified financing									
IMF ECF/EFF	0	0	0	103	85	…	…	…	…
Other	0	0	0	47	174	…	…	…	…
Memorandum items:									
Financing gap (EBS/11/170)	0	0	57	106	239	0	0	0	0
Current account (in percent of GDP)	-15.8	-14.7	-10.9	-10.0	-8.7	-7.6	-6.6	-6.0	-5.8
Trade balance (in percent of GDP)	-24.1	-21.7	-20.4	-19.9	-19.0	-18.2	-17.2	-16.7	-16.3
Gross international reserves (end of period)	2,004	1,866	1,869	1,759	1,661	1,545	1,670	1,895	2,169
In months of next year's imports	5.7	4.7	4.6	4.1	3.8	3.4	3.5	3.7	4.0
Merchandise export growth, percent change	-32.7	57.0	34.3	2.5	6.9	6.4	6.3	7.0	7.9
Merchandise import growth, percent change	-25.0	13.4	14.2	1.4	3.2	3.3	3.1	4.8	6.1
Nominal external debt	4,878	6,145	6,752	7,135	7,260	7,348	7,577	7,838	8,150
o.w. public external debt	2,967	3,299	3,544	3,830	3,857	3,839	3,953	4,091	4,273
Nominal external debt stock (in percent of GDP)	57.8	64.6	65.9	67.6	65.3	62.6	61.0	59.2	57.4
External public debt-to-exports ratio (in percent)	222.1	170.3	147.4	151.6	142.2	132.4	127.9	123.7	120.4
External public debt service (in percent of exports)	5.4	4.7	4.4	9.8	15.4	10.1	6.0	6.4	7.0

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

1/ Gross international reserves include the SDR holdings.

Table 3. Armenia: Monetary Accounts, 2008–12

(In billions of drams, unless otherwise indicated)

	2008	2009	2010	2011				2012			
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Prog. 1/	Prog. 1/	Prog. 1/	Prog. 1/
Central Bank of Armenia											
Net foreign assets	377.5	571.6	422.4	407.5	392.3	457.5	465.2	392.2	434.3	438.0	430.5
Net international reserves 2/	390.0	595.8	500.6	488.4	473.8	537.5	521.4	454.0	496.7	501.2	494.3
Other	-12.4	-80.5	-76.9	-80.9	-81.5	-80.0	-56.3	-61.7	-62.4	-63.1	-63.8
Net domestic assets	72.2	-59.9	85.1	98.9	127.9	113.1	206.1	198.2	176.1	205.5	282.5
Claims on general government (net)	-96.5	-152.5	-95.6	-92.1	-83.7	-100.4	-66.7	-91.3	-121.5	-111.9	-64.2
Of which: central government (net)	-84.4	-138.8	-76.7	-67.1	-57.8	-80.1	-54.2	-78.8	-109.0	-99.4	-51.7
Claims on banks	80.6	66.2	57.4	67.2	86.3	81.8	137.0	123.7	144.4	155.1	175.8
KfW & IBRD	19.9	39.1	61.5	62.2	75.5	82.3	90.7	93.7	94.4	95.1	95.8
Monetary instruments (net) excluding CBA bills	60.7	27.1	-4.1	5.0	10.8	-0.5	46.3	30.0	50.0	60.0	80.0
CBA bills 3/	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	89.5	26.4	123.3	123.8	125.3	131.7	135.8	165.8	153.2	162.2	170.9
Reserve money	449.7	511.7	507.6	506.3	520.2	570.6	671.3	590.5	610.4	643.6	713.0
Currency issue	344.5	320.7	348.2	312.4	338.9	359.6	398.8	372.9	389.4	404.0	436.9
Deposits	105.2	191.0	159.4	193.9	181.3	211.0	272.5	217.6	221.1	239.6	276.1
Deposits in drams	39.3	42.3	61.4	104.6	101.3	106.3	169.9	171.8	173.0	181.3	212.9
Deposits in foreign currency	65.9	148.7	98.0	89.3	80.0	104.7	102.6	45.8	48.1	58.3	63.2
Banking system											
Net foreign assets	229.2	379.1	193.8	149.9	60.2	70.1	42.6	-25.7	-8.6	-24.9	-62.5
Net domestic assets	479.0	444.9	717.4	780.1	907.1	951.9	1,084.1	1,141.7	1,150.1	1,215.5	1,363.7
Claims on government (net)	-37.3	-125.3	-50.9	-51.1	-48.4	-51.6	-1.8	-25.9	-58.2	-38.4	20.8
Of which: claims on central government (net)	-25.3	-111.6	-32.0	-26.2	-22.5	-31.3	10.7	-13.5	-45.7	-25.9	33.3
Claims on rest of the economy	638.6	728.3	922.9	998.3	1152.9	1152.0	1251.2	1332.9	1373.7	1419.2	1508.3
Other items (net)	-122.3	-158.0	-154.5	-167.1	-197.5	-148.5	-165.3	-165.3	-165.3	-165.3	-165.3
Broad money	708.2	824.0	911.2	930.0	967.3	1022.0	1,126.6	1,116.0	1,141.5	1,190.6	1,301.2
Currency in circulation	316.1	282.7	304.5	278.5	301.9	320.5	349.6	322.9	339.4	354.0	386.9
Deposits	392.2	541.3	606.7	651.5	665.5	701.5	777.0	793.1	802.1	836.6	914.4
Domestic currency	219.5	170.7	216.7	227.5	239.5	268.3	306.5	306.9	304.8	323.9	393.0
Foreign currency	172.6	370.6	389.9	424.0	426.0	433.2	470.5	486.2	497.3	512.7	521.3
Memorandum items:											
Exchange rate (in drams per U.S. dollar, end of period)	306.7	377.9	363.4	369.7	368.9	372.1	385.8	…	…	…	…
NIR, program definition, at program exchange rates (in millions of U.S. dollars)	1,057	1,019	892	833	800	878	795	805	844	858	824
12-month change in reserve money (in percent)	5.3	13.8	-0.8	8.9	19.7	30.2	32.3	16.6	17.3	12.8	6.2
12-month change in broad money (in percent)	2.4	16.4	10.6	12.7	21.6	24.9	23.6	20.0	18.0	16.5	15.5
12-month change in private sector credit (in percent)	48.6	14.0	26.7	29.4	46.7	37.3	35.6	33.5	19.1	23.2	20.5
Velocity of broad money (end of period)	5.0	3.8	3.8	3.8	3.8	3.7	3.4	3.5	3.5	3.4	3.2
Money multiplier	1.6	1.6	1.8	1.8	1.9	1.8	1.7	1.9	1.9	1.9	1.8
Dollarization in bank deposits 4/	44.0	68.5	64.3	65.1	64.0	61.8	60.6	61.3	62.0	61.3	57.0
Dollarization in broad money 5/	24.4	45.0	42.8	45.6	44.0	42.4	41.8	43.6	43.6	43.1	40.1
Currency in circulation in percent of deposits	80.6	52.2	50.2	42.7	45.4	45.7	45.0	40.7	42.3	42.3	42.3
Stock of foreign currency deposits (in millions of U.S. dollars) 1/	562.8	980.8	1,012.9	1,101.4	1,106.5	1,125.2	1,222.2	1,262.8	1,291.6	1,331.8	1,354.1
Banking system financing of the central government (cumulative) 6/	-9.6	-86.4	79.6	5.8	9.5	0.7	42.7	-24.2	-56.5	-36.6	22.5

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, 2008–11

(In percent, unless otherwise indicated)

	2008	2009				2010				2011			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep	Dec.
Capital adequacy													
Total regulatory capital to risk-weighted assets	27.5	26.1	28.0	28.3	28.3	28.6	28.9	26.9	22.2	21.3	20.0	19.6	18.3
Capital (net worth) to assets	23.0	21.2	22.3	21.0	21.0	20.6	22.1	21.6	20.4	20.2	19.3	18.5	17.2
Asset composition													
Sectoral distribution of loans (in billions of drams)													
Industry (excluding energy sector)	66.2	78.0	76.0	89.6	115.3	121.2	127.7	136.7	156.7	164.9	165.6	172.3	178.6
Energy sector	19.7	17.3	18.6	26.7	31.7	32.0	24.3	37.0	47.2	56.3	65.4	72.7	77.5
Agriculture	36.5	44.6	45.9	45.2	44.2	48.1	48.7	50.0	52.4	57.3	66.4	75.6	80.7
Construction	39.5	43.3	44.0	48.9	54.1	57.5	58.8	65.3	74.8	78.8	87.3	85.8	96.0
Transport and communication	10.2	10.3	9.8	14.7	15.4	17.8	22.2	26.0	25.7	30.2	38.2	47.8	50.9
Trade/commerce	132.0	140.4	131.0	143.6	145.5	161.0	164.7	174.1	184.8	200.1	222.1	248.0	275.7
Sectoral distribution of loans to total loans (percent of total)													
Industry (excluding energy sector)	10.7	12.2	12.5	13.7	16.5	16.2	16.9	17.0	17.7	17.1	15.9	14.8	14.0
Energy sector	3.2	2.7	3.1	4.1	4.5	4.3	3.2	4.6	5.3	5.9	6.3	6.2	6.1
Agriculture	5.9	7.0	7.6	6.9	6.3	6.4	6.4	6.2	5.9	6.0	6.4	6.5	6.3
Construction	6.4	6.8	7.3	7.5	7.7	7.7	7.8	8.1	8.4	8.2	8.4	7.4	7.5
Transport and communication	1.7	1.6	1.6	2.2	2.2	2.4	2.9	3.2	2.9	3.1	3.7	4.1	4.0
Trade/commerce	21.4	22.0	21.6	22.0	20.8	21.6	21.8	21.6	20.9	20.8	21.3	21.3	21.6
Foreign exchange loans to total loans	38.7	48.7	51.5	54.3	54.0	54.3	55.4	56.4	58.0	59.6	59.6	60.2	61.2
Asset quality													
Nonperforming loans (in billions of drams)	27.9	50.2	64.6	64.5	36.3	43.9	38.5	37.9	28.6	35.7	37.4	56.0	43.7
Watch (up to 90 days past due)	21.8	36.6	38.8	27.0	14.9	23.2	18.3	18.9	11.3	20.7	19.3	35.0	18.8
Substandard (91-180 days past due)	3.4	11.4	19.3	23.2	10.1	16.0	13.8	13.8	11.3	8.5	13.9	13.6	15.6
Doubtful (181-270 days past due)	2.7	2.1	6.5	14.3	11.3	4.7	6.4	5.2	6.1	6.5	4.2	7.4	9.3
Loss (>270 days past due)	10.2	12.7	14.3	20.9	26.2	32.3	32.0	34.0	34.6	36.4	36.6	42.3	45.2
Nonperforming loans to gross loans	4.4	7.6	10.2	9.3	4.8	5.6	4.8	4.5	3.1	3.5	3.4	4.8	3.4
Provisions to nonperforming loans	38.2	26.9	26.6	33.1	46.7	36.2	41.4	41.9	56.7	51.0	50.9	41.3	55.4
Spread between highest and lowest rates of interbank borrowing in AMD	3.0	4.5	5.0	7.0	2.5	3.0	2.8	4.3	4.0	4.0	3.0	2.3	1.5
Spread between highest and lowest rates of interbank borrowing in foreign currency	1.0	8.0	11.3	5.8	3.0	4.0	7.6	2.8	5.0	2.0	5.0	4.1	5.3
Earnings and profitability													
ROA (profits to period average assets)	3.1	-0.1	-0.1	0.0	0.7	1.3	1.8	2.0	2.2	2.0	2.3	1.9	1.9
ROE (profits to period average equity)	13.6	-0.7	-0.3	0.1	3.4	6.1	8.5	9.5	10.2	10.0	11.7	9.8	9.8
Interest margin to gross income	45.9	47.1	44.4	42.2	42.2	43.5	44.1	44.3	43.8	43.6	43.4	42.4	42.0
Interest income to gross income	72.7	86.2	83.0	79.5	78.3	79.0	78.9	78.2	77.0	78.9	78.9	78.5	78.3
Noninterest expenses to gross income	42.0	45.3	44.1	41.5	40.7	39.4	39.6	38.9	39.2	36.9	36.6	35.6	36.4
Liquidity													
Liquid assets to total assets	23.8	29.1	32.0	35.2	34.2	33.9	30.1	30.1	29.5	28.9	26.8	28.3	27.9
Liquid assets to total short-term liabilities	103.1	135.4	145.3	146.2	142.1	140.4	128.8	129.3	131.5	137.2	132.0	125.0	120.8
Customer deposits to total (non-interbank) loans	81.4	92.1	96.3	100.7	96.4	96.5	86.8	86.5	87.2	87.1	85.3	89.3	91.5
Foreign exchange liabilities to total liabilities	55.1	69.4	70.9	68.9	67.6	70.3	67.4	66.2	64.9	65.3	65.5	66.0	63.3
Sensitivity to market risk													
Gross open positions in foreign exchange to capital	11.5	13.8	8.4	7.1	3.4	3.1	3.8	3.6	2.9	3.0	3.2	3.4	3.0
Net open position in FX to capital				4.3	1.9	0.4	-0.1	0.2	-0.2	0.5	0.4	-1.1	0.5

Source: Central Bank of Armenia.

Table 5. Armenia: Central Government Operations, 2009–15
(In billions of drams)

	2009	2010	2011			2012					2013	2014	2015
					Prel.		Q1	Q2	Q3	Q4			
	Act.	Act.	Budget	EBS/11/170		Prog.	Prog.	Prog.	Prog.	Prog.	Proj.	Proj.	Proj.
Total revenue and grants	655.6	734.3	832.5	840.4	834.8	890.0	178.6	234.2	231.4	245.8	992.3	1080.3	1188.7
Total revenue	634.4	706.1	774.2	775.9	776.6	874.7	177.1	231.3	227.0	239.3	969.3	1068.0	1176.3
Tax revenues	505.9	568.9	627.8	629.5	629.6	711.7	142.7	189.5	186.4	193.2	791.4	875.5	968.2
VAT	239.2	278.1	307.3	306.2	301.5	338.8	64.6	82.8	93.7	97.7	377.1	417.7	462.4
Profits, simplified and presumptive	104.9	99.7	108.7	109.7	143.8	163.9	34.2	53.8	37.1	38.9	180.3	200.0	218.9
Personal income tax	60.2	73.9	82.0	82.7	81.2	102.2	20.1	24.9	27.2	30.0	115.6	125.0	140.5
Customs duties	25.1	29.4	32.6	32.8	34.7	38.8	6.2	11.6	10.2	10.8	42.2	50.5	54.6
Other	76.5	87.8	97.3	98.1	68.4	68.0	17.6	16.4	18.2	15.8	76.2	82.4	91.8
Social contributions	102.9	105.3	123.4	123.4	123.4	142.1	30.0	35.6	36.5	39.9	155.3	168.9	182.7
Other revenue	25.6	31.8	23.0	23.0	23.6	20.9	4.4	6.1	4.1	6.3	22.7	23.5	25.5
Grants	21.2	28.2	58.3	64.5	58.2	15.3	1.4	3.0	4.4	6.5	22.9	12.3	12.4
Total expenditure	897.1	906.6	980.9	980.9	943.1	1021.4	185.9	250.1	262.0	320.5	1109.4	1194.0	1295.8
Expense	712.0	727.9	818.8	818.8	788.7	874.9	174.6	220.7	220.9	255.7	940.9	1017.6	1103.4
Wages	83.5	82.5	91.0	91.0	86.5	95.6	28.2	24.4	24.5	18.6	103.4	111.8	121.0
Pensions	4.6	4.5	5.4	5.4	4.7	5.4	0.9	1.3	1.2	2.0	5.2	5.2	5.2
Pension reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	25.0
Subsidies	18.4	17.4	19.0	19.0	18.3	24.5	4.1	7.8	7.4	5.1	29.0	32.0	34.0
Interest	16.2	30.2	42.6	42.6	35.2	47.7	8.1	13.7	10.4	15.6	49.6	56.2	63.1
Social allowances and pensions	239.9	241.7	268.2	268.2	255.1	294.7	66.9	74.4	73.0	77.3	320.1	356.1	395.7
Pensions/social security benefits	176.0	176.8	…	196.9	186.6	199.1	48.5	51.0	50.3	49.2	215.4	237.9	257.3
Social assistance benefits	64.0	64.9	…	71.3	68.5	83.6	18.4	20.3	19.7	25.1	92.7	106.2	126.4
Employer social benefits	0.0	0.0	…	0.0	0.0	12.0	3.0	3.0	3.0	3.0	12.0	12.0	12.0
Goods and services	150.7	155.6	168.2	168.2	166.7	171.2	29.9	43.9	42.7	54.6	186.1	197.4	209.8
Grants	62.0	66.6	69.6	69.6	69.2	76.1	15.9	18.9	20.4	20.8	83.7	83.7	83.7
Other expenditure	136.6	129.5	154.9	154.9	152.9	159.8	20.6	36.2	41.3	61.7	163.8	175.2	190.9
Transactions in nonfinancial assets	185.1	178.7	162.0	162.0	154.4	146.5	11.3	29.4	41.0	64.9	168.5	176.4	192.4
Acquisition of nonfinancial assets	195.7	179.2	162.1	162.1	157.7	148.3	11.4	29.4	41.7	65.8	168.5	176.4	192.4
Disposals of nonfinancial assets	10.6	0.5	0.1	0.1	3.3	1.8	0.1	0.1	0.7	0.9	0.0	0.0	0.0
					0.0								
Overall balance (above-the-line)	-241.5	-172.3	-148.3	-140.5	-108.3	-131.4	-7.3	-15.8	-30.6	-74.7	-117.1	-113.8	-107.1
Of which: Unidentified Revenue Measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-18.0	-25.0
Statistical discrepancy	-6.2	13.2	0.0	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (below-the-line)	-247.7	-159.1	-148.3	-140.5	-106.6	-131.4	-7.3	-15.8	-30.6	-74.7	-117.1	-113.8	-107.1
Financing	247.7	159.1	148.3	140.5	106.6	131.4	7.3	15.8	30.6	74.7	117.1	113.8	107.1
Domestic financing	-108.5	96.5	68.6	63.1	63.1	31.5	-19.4	-32.6	22.6	57.9	53.7	117.2	108.4
Banking system 1/	-40.0	95.6	78.0	65.7	47.8	22.5	-24.2	-32.3	19.8	59.2	47.9	110.8	101.6
CBA	-54.4	62.1	56.1	53.1	22.4	2.5	-24.5	-30.2	9.6	47.7	2.3	67.2	57.7
Commercial Banks	14.4	33.5	21.9	12.5	25.4	20.0	0.4	-2.1	10.2	11.5	45.6	43.6	43.9
Nonbanks	-68.5	0.9	-9.4	-2.6	15.2	6.0	4.8	-0.3	2.8	-1.3	5.9	6.3	6.9
Privatization proceeds	0.0	0.0	0.0	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	5.0	11.9	11.9	6.0	0.3	-0.3	2.8	3.1	10.4	11.2	12.2
Promissory note/other	-3.2	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-74.0	-2.6	-14.4	-14.4	3.4	0.0	4.5	0.0	0.0	-4.5	-4.5	-4.9	-5.3
External financing	356.2	62.5	79.8	77.4	43.5	99.8	26.6	48.4	8.0	16.9	-8.0	-3.4	-1.3
Gross inflow 2/	395.6	105.3	125.6	123.2	89.4	163.6	43.5	64.9	24.0	31.1	99.4	95.6	100.8
Amortization due	-6.3	-9.7	-10.7	-10.7	-10.9	-28.1	-7.0	-7.0	-7.0	-7.0	-71.2	-59.8	-59.7
Net lending	-33.1	-33.1	-35.1	-35.1	-35.1	-35.7	-9.8	-9.5	-9.1	-7.3	-36.3	-39.2	-42.4
Unidentified financing	…	…	…		…	0.0	0.0	0.0	0.0	0.0	71.4	0.0	0.0
Memorandum items:													
Nominal GDP (in billion of drams)	3,142	3,502	3,837	3,871	3,819	4,172	4,172	4,172	4,172	4,172	4,533	4,903	5,303
Program balance 3/	-354.8	-124.4	-186.9	-180.3	-138.2	-164.0	-12.6	-25.3	-39.6	-86.5	…	…	…
Budget support loans	5.1	0.0	65.7	65.8	0.0	0.0	24.7	11.1	45.2	20.0	0.0	0.0	0.0
T-bill issuance	45.4	30.2	30.0	30.0	30.0	30.0	1.7	-1.3	14.0	15.7	52.0	11.2	12.2

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

1/ Discrepancy between the fiscal and monetary accounts in 2009Q3-Q4, 2010, and 2011 is explained by government lending to the economy through commercial banks.
2/ Includes IMF budget support.
3/ 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.

Table 6. Armenia: Central Government Operations, 2009–15
(In percent of GDP, unless otherwise specified)

	2009	2010	2011			2012					2013	2014	2015
							Q1	Q2	Q3	Q4			
	Act.	Act.	Budget	EBS/11/170	Prel.	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	Proj.	Proj.
Total revenue and grants	20.9	21.0	21.7	21.7	21.9	21.3	4.3	5.6	5.5	5.9	21.9	22.0	22.4
Total revenue	20.2	20.2	20.2	20.0	20.3	21.0	4.2	5.5	5.4	5.7	21.4	21.8	22.2
Tax revenues	16.1	16.2	16.4	16.3	16.5	17.1	3.4	4.5	4.5	4.6	17.5	17.9	18.3
VAT	7.6	7.9	8.0	7.9	7.9	8.1	1.5	2.0	2.2	2.3	8.3	8.5	8.7
Profits, simplified and presumptive	3.3	2.8	2.8	2.8	3.8	3.9	0.8	1.3	0.9	0.9	4.0	4.1	4.1
Personal income tax	1.9	2.1	2.1	2.1	2.1	2.5	0.5	0.6	0.7	0.7	2.6	2.6	2.7
Customs duties	0.8	0.8	0.8	0.8	0.9	0.9	0.1	0.3	0.2	0.3	0.9	1.0	1.0
Other	2.4	2.5	2.5	2.5	1.8	1.6	0.4	0.4	0.4	0.4	1.7	1.7	1.7
Social contributions	3.3	3.0	3.2	3.2	3.2	3.4	0.7	0.9	0.9	1.0	3.4	3.4	3.4
Other revenue	0.8	0.9	0.6	0.6	0.6	0.5	0.1	0.1	0.1	0.2	0.5	0.5	0.5
Grants	0.7	0.8	1.5	1.7	1.5	0.4	0.0	0.1	0.1	0.2	0.5	0.3	0.2
Total expenditure	28.6	25.9	25.6	25.3	24.7	24.5	4.5	6.0	6.3	7.7	24.5	24.4	24.4
Expense	22.7	20.8	21.3	21.2	20.7	21.0	4.2	5.3	5.3	6.1	20.8	20.8	20.8
Wages	2.7	2.4	2.4	2.4	2.3	2.3	0.7	0.6	0.6	0.4	2.3	2.3	2.3
Pensions	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Pension reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.5
Subsidies	0.6	0.5	0.5	0.5	0.5	0.6	0.1	0.2	0.2	0.1	0.6	0.7	0.6
Interest	0.5	0.9	1.1	1.1	0.9	1.1	0.2	0.3	0.2	0.4	1.1	1.1	1.2
Social allowances and pensions	7.6	6.9	7.0	6.9	6.7	7.1	1.6	1.8	1.8	1.9	7.1	0.0	6.7
Pensions/social security benefits	5.6	5.0	…	5.1	4.9	4.8	1.2	1.2	1.2	1.2	4.8	4.9	4.9
Social assistance benefits	2.0	1.9	…	1.8	1.8	2.0	0.4	0.5	0.5	0.6	2.0	2.2	2.4
Employer social benefits	0.0	0.0	…	0.0	0.0	0.3	0.1	0.1	0.1	0.1	0.3	0.2	0.2
Goods and services	4.8	4.4	4.4	4.3	4.4	4.1	0.7	1.1	1.0	1.3	4.1	4.0	4.0
Grants	2.0	1.9	1.8	1.8	1.8	1.8	0.4	0.5	0.5	0.5	1.8	1.7	1.6
Other expenditure	4.3	3.7	4.0	4.0	4.0	3.8	0.5	0.9	1.0	1.5	3.6	3.6	3.6
Transactions in nonfinancial assets	5.9	5.1	4.2	4.2	4.0	3.5	0.3	0.7	1.0	1.6	3.7	3.6	3.6
Acquisition of nonfinancial assets	6.2	5.1	4.2	4.2	4.1	3.6	0.3	0.7	1.0	1.6	3.7	3.6	3.6
Disposals of nonfinancial assets	0.3	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (above-the-line)	-7.7	-4.9	-3.9	-3.6	-2.8	-3.1	-0.2	-0.4	-0.7	-1.8	-2.6	-2.3	-2.0
Of which: Unidentified Revenue Measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	-0.5
Statistical discrepancy	-0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (below-the-line)	-7.9	-4.5	-3.9	-3.6	-2.8	-3.1	-0.2	-0.4	-0.7	-1.8	-2.6	-2.3	-2.0
Financing	7.9	4.5	3.9	3.6	2.8	3.1	0.2	0.4	0.7	1.8	2.6	2.3	2.0
Domestic financing	-3.5	2.8	1.8	1.6	1.7	0.8	-0.5	-0.8	0.5	1.4	1.2	2.4	2.0
Banking system 1/	-1.3	2.7	2.0	1.7	1.3	0.5	-0.6	-0.8	0.5	1.4	1.1	2.3	1.9
CBA	-1.7	1.8	1.5	1.4	0.6	0.1	-0.6	-0.7	0.2	1.1	0.1	1.4	1.1
Commercial Banks	0.5	1.0	0.6	0.3	0.7	0.5	0.0	0.0	0.2	0.3	1.0	0.9	0.8
Nonbanks	-2.2	0.0	-0.2	-0.1	0.4	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.1
Privatization proceeds	0.0	0.0	0.0	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	0.3	0.3	0.1	0.0	0.0	0.1	0.1	0.2	0.2	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	0.0	0.0	0.0
Net lending	-2.4	-0.1	-0.4	-0.4	0.1	0.0	0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Of which: financed with the Russian loan	-2.5	0.1	-0.4	-0.4	0.1	0.0	0.1	0.0	0.0	-0.1	0.0	0.0	0.0
External financing	11.3	1.8	2.1	2.0	1.1	2.4	0.6	1.2	0.2	0.4	-0.2	-0.1	0.0
Gross inflow 2/	12.6	3.0	3.3	3.2	2.3	3.9	1.0	1.6	0.6	0.7	2.2	2.0	1.9
Of which: Russian project loan	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Amortization due	-0.2	-0.3	-0.3	-0.3	-0.3	-0.7	-0.2	-0.2	-0.2	-0.2	-1.6	-1.2	-1.1
Net lending	-1.1	-0.9	-0.9	-0.9	-0.9	-0.9	-0.2	-0.2	-0.2	-0.2	-0.8	-0.8	-0.8
Unidentified financing	…	…	…		…	0.0	0.0	0.0	0.0	0.0	1.6	0.0	0.0
Memorandum items:													
Nominal GDP (in billion of drams)	3,142	3,502	3,837	3,871	3,819	4,172	4,172	4,172	4,172	4,172	4,533	4,903	5,303
Program balance 3/	-11.3	-3.6	-4.9	-4.7	-3.6	-3.9	-0.3	-0.6	-0.9	-2.1	…	…	…
Budget support loans	0.2	0.0	1.7	1.7	0.0	0.0	0.6	0.3	1.1	0.5	0.0	0.0	0.0
T-bill issuance	1.4	0.9	0.8	0.8	0.8	0.7	0.0	0.0	0.3	0.4	1.1	0.2	0.2

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

1/ Discrepancy between the fiscal and monetary accounts in 2009Q3-Q4, 2010, and 2011 is explained by government lending to the economy through commercial banks.

2/ Includes IMF budget support.

3/ 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.

Table 7. Armenia: Medium-Term Macroeconomic Framework, 2009–17
(In percent of GDP, unless otherwise specified)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Act.	Act.	Prel.	Projections					
National income and prices									
Real GDP (percent change)	-14.1	2.1	4.6	3.8	4.0	4.0	4.0	4.0	4.0
Gross domestic product (in millions of U.S. dollars)	8,648	9,371	10,251	10,553	11,055	11,673	12,351	13,130	14,031
Gross national income per capita (in U.S. dollars)	2,698	2,943	3,243	3,324	3,451	3,613	3,784	3,981	4,209
CPI inflation, period average (percent change)	3.5	7.3	7.7	3.9	4.2	4.0	4.0	4.0	4.0
Investment and saving									
Investment	33.8	31.3	30.8	30.7	31.5	31.8	32.3	32.6	33.2
Private	27.9	26.2	26.7	27.2	27.7	28.2	28.7	29.2	29.7
Public	5.9	5.1	4.0	3.5	3.8	3.6	3.6	3.4	3.4
National savings	18.0	16.7	19.8	20.7	22.8	24.2	25.8	26.7	27.4
Private	19.8	16.5	18.6	20.3	21.7	22.9	24.2	25.0	25.4
Public	-1.8	0.2	1.2	0.4	1.1	1.3	1.6	1.7	2.0
Central government operations									
Revenue and grants	20.9	21.0	21.9	21.3	21.9	22.0	22.4	22.6	22.6
Of which: tax revenue	16.1	16.2	16.5	17.1	17.5	17.9	18.3	18.5	18.6
grants	0.7	0.8	1.5	0.4	0.5	0.3	0.2	0.2	0.2
Expenditure	28.6	25.9	24.7	24.5	24.5	24.4	24.4	24.3	24.1
Current expenditure	22.7	20.8	20.7	21.0	20.8	20.8	20.8	20.9	20.7
Capital expenditure	5.9	5.1	4.0	3.5	3.7	3.6	3.6	3.4	3.4
Overall balance on a cash basis	-7.9	-4.5	-2.8	-3.1	-2.6	-2.3	-2.0	-1.7	-1.5
Domestic financing	-3.5	2.8	1.7	0.8	1.2	2.4	2.0	1.4	1.8
External financing	11.3	1.8	1.1	2.4	-0.2	-0.1	0.0	0.3	-0.3
Unidentified financing	…	…	0.0	0.0	1.6	0.0	0.0	0.0	0.0
Public and publicly-guaranteed debt	40.2	39.2	40.6	42.3	42.1	41.5	41.9	41.6	41.4
External sector									
Exports of goods and services	15.4	20.7	23.5	23.9	24.5	24.8	25.0	25.2	25.3
Imports of goods and services	42.6	44.9	46.7	46.6	46.2	45.3	44.5	43.9	43.5
Current account (in percent of GDP)	-15.8	-14.7	-10.9	-10.0	-8.7	-7.6	-6.6	-6.0	-5.8
Current account (in millions of U.S. dollars)	-1,367	-1,373	-1,120	-1,058	-961	-891	-813	-785	-813
Capital and financial account (in millions of U.S. dollars)	1,560	1,058	1,045	953	882	927	963	1,049	1,144
Of which: direct foreign investment	725	562	447	498	538	578	624	674	728
public sector disbursements	907	219	180	373	243	228	235	269	325
Change in gross international reserves (in millions of U.S. dollars) 1/	-597	138	-4	110	98	116	-125	-225	-274
Arrears and debt relief (in millions of U.S. dollars)	0	0	0	0	0	0	0	0	0
Financing gap (in millions of U.S. dollars)	0	0	0	103	259	0	0	0	0
Of which: IMF	0	0	0	103	85	0	0	0	0
Other	0	0	0	47	174	0	0	0	0
Gross international reserves in months of imports	5.7	4.7	4.6	4.1	3.8	3.4	3.5	3.7	4.0

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

1/ A negative figure indicates an increase.

Table 8. Armenia: Fund Disbursements and Timing of Reviews 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.

Table 9. Armenia: Indicators of Capacity to Repay the Fund, 2012–20 1/

				Projections					
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fund obligations based on existing credit									
(in millions of SDRs)									
Principal	101.0	180.2	98.1	16.4	23.8	27.1	27.2	26.6	25.2
Charges and interest	5.4	3.4	1.8	1.1	1.0	0.8	0.6	0.4	0.3
Fund obligations based on existing and prospective credit									
(in millions of SDRs)									
Principal	101.0	180.2	98.1	16.4	25.3	36.9	46.9	48.9	47.5
Charges and interest	7.9	6.2	2.7	2.0	1.8	1.6	1.3	1.0	0.7
Total obligations based on existing and prospective credit									
In millions of SDRs	108.9	186.4	100.8	18.4	27.1	38.5	48.2	49.9	48.2
In millions of U.S. dollars	168.0	287.7	155.5	28.4	41.8	59.3	74.2	76.9	74.2
In percent of gross international reserves	9.6	17.3	10.1	1.7	2.2	2.7	3.1	2.9	2.6
In percent of exports of goods and services	6.6	10.6	5.4	0.9	1.3	1.7	1.9	1.9	1.7
In percent of debt service 2/	66.5	69.8	55.8	16.1	24.2	33.0	40.6	41.7	42.2
In percent of GDP	1.6	2.6	1.3	0.2	0.3	0.4	0.5	0.5	0.4
In percent of quota	118.3	202.6	109.5	20.0	29.5	41.9	52.4	54.3	52.3
Outstanding Fund credit 2/									
In millions of SDRs	505.0	379.7	281.7	265.2	240.0	203.1	156.2	107.3	59.9
In billions of U.S. dollars	0.8	0.6	0.4	0.4	0.4	0.3	0.2	0.2	0.1
In percent of gross international reserves	44.3	35.3	28.1	24.5	19.5	14.4	10.0	6.3	3.3
In percent of exports of goods and services	30.8	21.6	15.0	13.2	11.2	8.8	6.3	4.0	2.1
In percent of debt service 2/	308.3	142.2	156.0	232.2	214.3	174.2	131.6	89.7	52.5
In percent of GDP	7.4	5.3	3.7	3.3	2.8	2.2	1.6	1.0	0.5
In percent of quota	548.9	412.8	306.2	288.3	260.8	220.7	169.8	116.6	65.1
Net use of Fund credit (in millions of SDRs)	-34.0	-125.2	-98.1	-16.4	-25.3	-36.9	-46.9	-48.9	-47.5
Disbursements	67.0	55.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	101.0	180.2	98.1	16.4	25.3	36.9	46.9	48.9	47.5
Memorandum items:									
Nominal GDP (in millions of U.S. dollars)	10,552.5	11,055.4	11,672.9	12,351.4	13,130.2	14,031.1	15,030.1	16,100.3	17,246.6
Exports of goods and services (in millions of U.S. dollars)	2,527.0	2,711.7	2,900.3	3,090.1	3,306.1	3,549.9	3,825.6	4,126.5	4,450.0
Gross international reserves (in millions of U.S. dollars)	1,759.0	1,660.8	1,545.2	1,670.2	1,894.8	2,168.9	2,408.9	2,614.0	2,804.6
Debt service (in millions of U.S. dollars) 2/	252.8	412.2	278.7	176.2	172.6	179.6	182.9	184.3	175.7
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 10. Armenia: Structural Benchmarks for Future Implementation Under the EFF/ECF

	Measure	Rationale	Date
	Managing financial sector risk		
1	• Issue a regulation initiating collection and transmission by banks to the CBA of information on the currency mismatch of large borrowers	Monitoring this information will be important in order to adequately assess FX-induced credit risks.	June 2012
2	• Issue a regulation introducing low-level liquidity coverage ratios by major currencies, effective January 2013	Such coverage ratios would be prudent in view of the CBA's limited ability to provide foreign currency emergency liquidity assistance.	June 2012
	Competition policy and enforcement		
3	• Submit to Parliament further changes to the legal framework for competition (fines and sanctions, definitions)	Will address issues of high market concentration in Armenia, which increases the costs of doing business and raises possibilities of abuse of market power.	October 2012
	Social protection		
4	• 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	Integrating social services should improve service delivery and reduce poverty by providing vulnerable families with comprehensive access to social support and protection.	October 2012
	Tax policy		
5	• Submit to Parliament legislative proposals to adopt OECD guidelines for transfer pricing for implementation in 2013	Adoption of these guidelines would plug loopholes that have eroded the revenue base while preventing double taxation issues.	November 2012
	Pension reforms		
6	• Complete first set of estimates of the fiscal cost of the pension reform	Financing estimates are essential to ensure that the pension reforms are effective and sustainable.	December 2012
	Regulatory reform		
7	• 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).	Reducing regulatory burden will reduce the high costs of doing business.	December 2012

ATTACHMENT I. Armenia: Letter of Intent

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

Yerevan, May 31, 2012

Dear Madam Lagarde:

1. **Armenia is continuing its path of recovery and stabilization**. Growth picked up to 4.6 percent in 2011, with strong performance in industry, services, and agriculture. Construction remains in a slump. Inflation has come down from high levels in early 2011 with appropriate policies, a recovery in agriculture, and favorable global price developments. Fiscal consolidation was larger than expected in 2011, reflecting higher-than-expected grants, administrative improvements and efficiency gains, delays in project implementation, and spending restraint. The lower fiscal deficit contributed to a sizable reduction of the external current account deficit, which however remains high. The financial sector is well capitalized and sound, and credit has continued to expand rapidly, particularly in foreign currency (FX). In 2012, weaker global conditions are expected to reduce growth to 3.8 percent, just below potential. A further slowing of the global economy and spillovers from Europe are downside risks for economic activity. Over the medium term, fiscal and external consolidation will continue, supporting both economic growth close to potential, as well as stabilization and gradual reduction of public debt. Inflation should remain within the target range. Further structural reforms are planned to strengthen the business environment and competitiveness and boost private investment. Structural reforms, along with prudent macroeconomic management, should keep growth at around 4 percent per year over the medium term.

2. **Our program, supported by Extended Fund and Extended Credit (EFF/ECF) arrangements, remains on track**. All continuous and quantitative performance criteria (PCs) and most indicative targets (ITs) for end-December 2011 were met. All but one of the structural benchmarks were implemented, with one partly implemented and progress made on the outstanding measure. Preliminary indications are that most of the end-March 2012 ITs were also met; the ceiling on reserve money and the floor on social spending appear to have been missed by very small margins. This Letter of Intent (LOI) describes policies for the remainder of 2012. These continue to aim at containing pressures, limiting disruptions to the recovery, enhancing growth and poverty reduction, strengthening fiscal and debt sustainability, and further developing a sound financial system. We anticipate broad policy continuity following the parliamentary elections in May.

THE PROGRAM FOR 2012

Fiscal Policy and Debt Sustainability

3. **We have further reduced the fiscal deficit to help ensure debt sustainability and address external imbalances**. The fiscal deficit in 2011 was significantly lower than targeted under the program due to lower spending on goods and services, efforts to verify social allowance and pension recipients, lower spending on capital investment co-financing, and higher grants. For 2012, fiscal policies aim to increase tax revenues, while directing additional resources for growth and poverty reduction. We have implemented a major tax package aimed at improving the tax revenue-to-GDP ratio by 0.6 percentage points in 2012, based on IMF technical assistance. Measures adopted this year include: changes to the corporate income tax (thin capitalization provisions); increased income taxes and social contributions from high-income taxpayers; higher excises on alcoholic beverages; higher presumptive taxes on tobacco and casinos; and new excise taxes on motor oil and luxury cars. Importantly, we overhauled the fiscal regime for mining (structural benchmark) and increased the tax rate on non-metallic minerals. Grants are expected to be significantly lower in 2012. On the expenditure side, implementation of large capital projects will be stepped up, while social allowances and pensions will be increased, and benefits for the core civil service improved. As temporary factors helped contribute to the below-program deficit outturn in 2011, the fiscal deficit will be somewhat higher in 2012 in line with the program. Renewed consolidation in 2013–15 (with deficits of 2.6, 2.3 and 2.0 percent of GDP, respectively) is aimed to stabilize the public debt ratio; additional revenue gains of 0.4 percent per year will help mitigate the need for further spending cuts. We remain committed to saving at least half of tax revenue overperformance

4. **We will continue efforts to raise additional revenues through tax policy changes.** A tax strategy paper was finalized in December 2011 (structural benchmark) to help guide our actions. A key initiative for 2012 is preparation and submission of legislative proposals to adopt OECD guidelines for transfer pricing for implementation in 2013 (Structural Benchmark, November 2012), with support from the IFC. To support the medium-term revenue targets, we are considering a range of measures, including options for conversion of fees on extraction of non-metallic minerals to a royalty regime.

5. **We are also making further progress in tax administration reforms.** From January 2012, VAT taxpayers are required to file electronically, and new capacity within the taxpayer registry to identify VAT liabilities for each taxpayer (structural benchmark) will help support risk-based management audit and refund approaches and progress with the large stock of outstanding VAT credits. We issued a White Paper detailing measures and costs of addressing mixed cash and accrual accounting for VAT and refunding or offsetting excess VAT credits (structural benchmark). Following the recommendations in the White Paper and should sufficient additional funding be available, we will take actions to reduce the backlog of credit and ease restrictions on refunds of new credit. In addition, in line with our 2012–14 tax administration strategy, we will continue to decrease the number of field offices—by up

to 5 offices in the regions this year—as we expand service centers and extend e-filing. E-filing will be made available for all types of tax returns, and we are aiming that 40 percent of all tax returns be filed electronically by end-2012, from less than 10 percent now. To do so, a set of actions and incentives to promote enhanced e-filing will be developed by end-June, while a new tax administration IT program will help boost capacity. We are identifying specialized areas where additional capacity is needed (e.g., mining, financial services, transfer pricing). Finally, a new internal audit function is being introduced in the State Revenue Committee that is expected to begin work by July.

6. **We are continuing efforts to enhance social protection**. A key initiative is integration of the wide range of social services to enhance efficiency and service provision. While submission of legal amendments to parliament to enable the full functioning of integrated social services was delayed (structural benchmark), progress is being achieved. The delay reflected the need for further work after a pilot in 6 regions and the need for an inventory of services and an updated model for integration across ministries, agencies, and local governments. Legal changes should also facilitate information sharing across agencies, cooperation with NGOs, and new initiatives (e.g., at-risk teenagers). The aim now is Cabinet approval of a list and timetable of legal amendments (Structural benchmark, October 2012), and submission of the legal changes to parliament by mid 2013. While the delay is unfortunate, the required changes have proved to be significantly more complex than anticipated.

7. **We are accelerating our preparations for the introduction of pension reforms in 2014.** Substantial work lays ahead for successful transition to a funded pension system. We are working to lay out the regulatory framework in which the pension funds will operate, and establish adequate prudential norms based on an analysis of financial stability risks and recommendations from the recent FSAP Update mission. These will include specific rules for licensing of asset managers, investment policy regulations for pension portfolios, and rules governing consumer information. We will prepare approximately 35 separate decrees on pension reform issues in 2012–13. To help manage this process and keep the public informed, we have created a special fund for public relations and increasing awareness on the pension reforms. An action plan will be adopted, and information about performance will be publicized periodically. In addition, capacity to produce updated estimates of the fiscal costs of the reform (including the contingency costs of state guarantees) will be enhanced, with the first set of comprehensive estimates completed by year end (Structural benchmark, December 2012).

Monetary and Exchange Rate Policy

8. **Monetary policy will continue to aim at price stability**. As inflationary pressures have moderated, and spillovers from the Eurozone and Russia have not materialized, we have kept the policy rate steady at 8 percent since September 2011. Under the baseline scenario, the output gap is expected to remain small, and headline inflation is likely to stay in the target range over the policy-relevant horizon. Thus, further policy action is unlikely to be needed.

We will, however, remain vigilant, in particular against downside risks. Should risks leading to deflationary pressures clearly materialize, we will stand ready to reduce the policy rate in line with our inflation-targeting framework.

9. **Our commitment to a flexible exchange rate has not changed.** Our interventions in the market will not resist fundamental trends, but rather be limited to smoothing unusually large movements while maintaining a strong international reserve position as a buffer against exogenous shocks. We are making additional efforts to ensure that our international reserves meet or exceed the levels targeted for 2012 at the time of the Third Review. We are also reviewing our reserve management guidelines in light of recent discussions with the IMF staff. We will establish enhanced guidelines in consultation with the IMF prior to the next review.

10. **We will continue our efforts to strengthen our inflation-targeting regime.** Drawing on recent IMF technical assistance, we will improve our monetary policy framework by stepping up our capacity for model building and forecasting and by increasing the effectiveness of the CBA's organizational structure for policy formulation. We are also strengthening monetary operations to increase the relevance of the policy rate to market rates by further reducing volatility of interbank rates. We have expanded monetary instruments and are providing enhanced information on future liquidity conditions to market participants. Using these tools, we will aim to maintain dram liquidity close to the aggregate demand of the banking system. In addition, to prevent unexpected liquidity flows from causing a wide swing of interbank rates, we will reduce the width of the interest rate corridor around the policy rate from the current level of 600 basis points to 300 basis points ideally by end 2012, but not later than June 2013. We will also take further steps to strengthen the interest rate transmission channel. To this end, we are supporting efforts of NASDAQ OMX Armenia to develop a term interbank trading platform, which is expected to start operating by mid-2012. We will also study measures to increase liquidity of government security markets, including the consolidation of issuances into fewer and larger benchmark issues.

Financial Sector Stability and Development

11. **We will continue to safeguard the stability of the banking system, especially in light of rapid growth of loan portfolios, particularly in FX**. With deposits remaining highly dollarized and with banks continuing to tap external funding, FX lending is likely to continue to grow faster than dram lending. Following the crisis, the CBA has taken measures to have higher risk weights and provisioning for foreign currency-denominated assets in the calculation of prudential requirements and to create extra absorption buffers for excessive risks. As part of our continued monitoring of risks associated with FX lending, we will start requiring financial institutions to collect information on the currency mismatch of borrowers of large-sized loans (Structural benchmark, June 2012) and study the feasibility of expanding the coverage of smaller borrowers who must provide the information. In addition, to further strengthen the banking system resilience, we will introduce liquidity coverage ratios by major currencies. To minimize disruption we will begin with a coverage ratio lower than that

for domestic currency liabilities (Structural benchmark, June 2012, with effect from January 2013) and gradually increase the ratio over time.

12. **We will further enhance our regulatory and supervisory system in line with FSAP Update recommendations.** We will integrate the use of Basel II Pillar II powers in the supervisory toolkit to mitigate individual, institution-specific risks, including application of additional capital and other prudential requirements in case banks are not following appropriate risk-management practices. We will also amend regulations to require banks to immediately report changes to operations that would have a material adverse impact on the bank. In addition, we will clarify the division of responsibilities between the CBA and the government in crisis management by setting out in CBA rules that the Finance Ministry and the Deposit Guarantee Fund should participate in the Financial Stability Committee when financial institutions become insolvent and budget allocation and deposit payouts are needed.

Structural Reforms

13. **We are pursuing our structural reform agenda, focusing on the improvement of the business environment, governance and transparency.** We are implementing a new government action plan to implement more than 50 measures to improve the business environment and governance in 2012. Key measures include: simplifying tax payments for SMEs; facilitating trade across borders through the simplification of customs declarations and further improving customs valuation procedures; easing the submission and approval of construction permits; improving access to credit by strengthening collateral arrangements; reducing the costs of company registration by simplifying notary requirements; and reducing the number of procedures for resolving contractual disputes, including the liquidation of companies. Another important initiative is the "Regulatory Guillotine," which aims to review and significantly reduce the more than 25 thousand regulations on the books over the next two years, thereby improving the business environment, the efficiency of public administration, and governance. The project will be implemented in cooperation with donor agencies, civil society, and the private sector. The aim is to submit packets of legislative and regulatory changes in a first area (e.g., construction permitting, inspections, health and social regulations) by end-2012 (Structural benchmark, December 2012).

14. **The State Committee for the Protection of Economic Competition has continued to step up enforcement efforts against abuse of market dominance under its enhanced legal framework in 2012**. Actions so far in 2012 have focused on the fuel sector and pharmaceutical supplies within public procurement. Public information is being enhanced, and staff capacity strengthened, supported by twinning arrangements with two EU countries. Further changes to the legal framework will be proposed to parliament by end-October 2012 (Structural benchmark). These aim to: strengthen the definition and assessment of dominance, anticompetitive agreements, and price-related practices; and increase the amount of fines and introduce sanctions on individuals.

15. **We are continuing to assess options to deal with Nairit, the large synthetic rubber producer**. We have moved cautiously to find a private-sector led solution that

strictly minimizes government exposure and use of public funds. We are now working with a possible private investor, which will contract with a leading international engineering firm to assess the current state of Nairit's plant and equipment, the market for its products, possible modernization plans (including environmental impacts), and other options (including closure). We will only assume liabilities (including guarantees) in consultation with the Fund and the World Bank. In the event that we are unable to find a relevant private-party solution, we look forward to IFI assistance in handling Nairit's large scope of concerns (including workforce, environmental clean-up, and safety issues).

CONCLUSION

16. **Given strong program implementation, we request the completion of the Fourth Reviews of the EFF/ECF-supported program and the associated disbursement of SDR 33.5 million.** We also request the establishment of PCs for end-December 2012.

17. **We will maintain a close policy dialogue with the Fund and stand ready to take additional measures, as appropriate, to ensure the achievement of our social and economic objectives under the EFF/ECF 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. The Fifth Review is expected to be completed on or after September 30, 2012. The Sixth Review is expected to be completed on or after March 30, 2013.

18. **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/
Vache Gabrielyan
Minister of Finance
Republic of Armenia

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

Table 1. Armenia: Quantitative Targets for 2010–12 1/

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

	2011						2012					
	Mar. 2/	Jun.	Sep. 2/	Dec.			Mar. 2/			Jun.	Sep. 2/	Dec. 2/
	Act.	Act.	Act.	Prog.	Adj. Prog.	Prel.	Prog.	Adj. Prog.	Prel.	Prog.	Prog.	Prog.
Performance Criteria												
Net official international reserves (floor, in millions of U.S. dollars)	833	800	878	835	771	795	785	782	805	802	812	764
Net domestic assets of the CBA (ceiling)	85	118	98	187	215	201	187	195	190	186	197	248
Program fiscal balance (floor) 3/	-3	-31	-60	-187	-206	-187	-22	-27	-19	-37	-64	-167
External public debt arrears (continuous criterion)	0	0	0	0	0	0	0	0	0	0	0	0
Indicative Targets												
Reserve money (ceiling)	506	520	571	596	601	671	578	583	590	594	614	658
Average concessionality of newly contracted debt (floor, in percent) 4/				30	30	34						30
Social spending of the government (floor) 5/	7	15	27	36	36	36	8	8	8	15	28	37
Memorandum items:												
Budget support grants	0	3	12	31	28	28	33	28	28	39	39	43
o.w. EU MFA grant	0	0	8	19	19	19	19	19	19	19	19	19
Budget support loans	0	10	35	67	46	46	67	67	67	93	93	100
o.w. non-IMF loans	0	10	24	45	24	24	45	45	45	62	62	62
Project financing	10	16	30	58	44	44	23	23	…	46	70	93
KFW and IBRD loan disbursements	0	0	0	9	11	11	10	14	…	11	11	12

Sources: Armenian authorities; and Fund staff estimates.

1/ All items as defined in the TMU.

2/ Indicative target. December 2012 targets on net official international reserves, net domestic assets of the CBA, program fiscal balance, and external public debt arrears (Prog. Column) are proposed to the Executive Board as performance criteria.

3/ 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.

4/ Assessed on a calendar year basis.

5/ 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 Arrangement

Item	Measure	Proposed Time Frame (End of Period)	Outcome	Comment
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	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 rejected by National Assembly; excises increased for 2012.
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	Partly 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	New
13	Submit to Parliament legislative proposals to adopt OECD guidelines for transfer pricing for implementation in 2013.	November 2012		
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 proposed)	Successful pilot project for integrated system in 6 regions revealed need for additional work on legislative and regulatory package.
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		New
Fiscal and debt sustainability				
16	Approve a medium-term expenditure framework (2011–13), including a medium-term debt management strategy.	August 2010	Met	
17	Complete first set of estimates of the fiscal cost of the pension reform.	December 2012		New

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

Item	Measure	Proposed Time	Outcome	Comment
Monetary sector				
18	Approve terms and conditions for deposit auction to enable the CBA to absorb liquidity with greater flexibility.	September 2011	Met	
19	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				
20	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	
21	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	
22	Issue prudential regulation requiring banks to prepare their contingency plans for liquidity and solvency support.	December 2010	Met	
23	Issue a regulation initiating collection and transmission by banks to the CBA of information on the currency mismatch of large borrowers.	June 2012		New
24	Issue a regulation introducing low-level liquidity coverage ratios by major currencies, effective January 2013.	June 2012		New
Regulatory and competition policy and enforcement				
25	Submit to Parliament further changes to the legal framework for competition (fines and sanctions, definitions).	October 2012		New
26	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		New

ATTACHMENT II. Armenia: 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 May 31, 2012 (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 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

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[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).

[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.

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. 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 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 $25 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 $50 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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
				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 commercial banks	By currency and maturity	Weekly	Last working day of the week
	T-bill and coupon bond financing, CBA securities	Auction data: date, original and remaining maturities, issuance volume, allocation, average yield and coupon yield (if available)	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
	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	Monthly	Within 21 days of

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		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		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)
	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	Monthly	Within one month following the end of each quarter.

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		government; expenditure data will be provided according to both economic and functional classifications, consistent with the GFSM2001 methodology		
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 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	Quarterly	Within 30 days of the end of each quarter

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		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 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-10	Sep-11	Dec-11		Mar-12		Jun-12		Sep-12		Dec-12	
Actual	Actual	EBS/11/170	Prog.	EBS/11/170	Prog.	EBS/11/170	Prog.	EBS/11/170	Prog.	EBS/11/170	Prog.
5.0	0.7	25.8	27.7	2.0	7.9	4.0	9.9	6.0	11.9	8.0	13.9

1/ Cumulative from the end of the previous year.

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

	Dec-10	Sep-11	Dec-11		Mar-12		Jun-12		Sep-12		Dec-12	
	Actual	Actual	EBS/11/170	Prel.	EBS/11/170	Prog.	EBS/11/170	Prog.	EBS/11/170	Prog.	EBS/11/170	Prog.
Project financing	193	78	158	116	60	60	121	121	181	181	241	241
Budget support loan	96	91	175	119	0	55	68	160	68	160	85	177
Budget support grant	…	32	82	73	0	0	15	0	15	0	27	26
of which: EU MFA	0	20	50	50	0	0	0	0	0	0	0	0
Total	289	201	414	308	60	116	204	281	264	341	353	444

1/ Cumulative from the end of the previous year.

INTERNATIONAL MONETARY FUND

REPUBLIC OF ARMENIA

Fourth Reviews Under the Extended Fund Facility and Extended Credit Facility

Informational Annex

Prepared by the Middle East and Central Asia Department

May 31, 2012

Contents Page

ANNEX I. ARMENIA: RELATIONS WITH THE FUND
(As of March 31, 2012)

I. **Membership Status:** Joined 05/28/1992; Article VIII

II. **General Resources Account:**	**SDR Million**	**Percent of Quota**
Quota	92.00	100.00
Fund holdings of currency	512.43	556.99
Reserve Tranche Position	0.00	0.00

III. **SDR Department:**	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	87.99	100.00
Holdings	35.23	40.04

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**Percent of Quota**
Stand-By Arrangements	350.43	380.90
ECF Arrangements	118.54	128.85
Extended Arrangements	70.00	76.09

V. **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	06/27/2013	133.40	74.80
EFF	06/28/2010	06/27/2013	133.40	70.00

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	101.00	180.22	98.08	16.43	23.83
Charges/interest	5.45	4.29	1.82	1.11	0.96
Total	106.45	184.51	99.90	17.54	24.78

VII. **Safeguards Assessment**

Under the Fund’s safeguards assessment 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. The update assessment made recommendations to strengthen oversight arrangements at the CBA.

VIII. **Exchange Rate Arrangement**

(a) 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.

(b) 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).

IX. **Article IV Consultations**

The 2010 Article IV consultation with Armenia was concluded on December 1, 2010. Armenia is subject to a 24-month consultation cycle.

X. **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 will be presented to the Executive Board in May 2012. The most recent previous FSAP update took place in 2005.

XI. **Resident Representatives**

Mr. Guillermo Tolosa, since January 2010.

XII. **Technical Assistance**

The following table summarizes the Fund's technical assistance to Armenia since 2006.

Armenia: Technical Assistance from the Fund, 2006–12

Subject	Type of Mission	Timing	Counterpart
Fiscal Affairs Department (FAD)			
Tax administration	Short-term	October 5–18, 2006	MFE, STS
Public financial management reform	Short-term	November 27 – December 8, 2006	MFE
Tax administration	Short-term	October 31– November 13, 2007	MFE, STS
Tax administration	Short-term	January 5 – 22, 2008	MFE, STS
Tax administration	Short-term	April 1–12, 2008	MFE, STS
Tax administration	Short-term	June 11–17, 2008	MFE, STS
Tax administration	Short-term	February 2–27, 2009	MoF, SRC
Tax administration	Short-term	April 28–May 22, 2009	MoF, SRC
Tax administration	Short-term	September 23– October 6, 2009	MoF, SRC
Tax administration	Short-term	March 1–May 14, 2010	MoF, SRC
Tax administration	Short-term	August 30– November 10, 2010	MoF, SRC
Tax administration	Short-term	September 2010	MoF, SRC
Tax administration	Short-term	November 2010	MoF, SRC
Tax policy	Short-term	February 2011	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
Legal Department			
Legislation Development & FIU	Short-term	July 31–August 7, 2006	
Unified Tax Code	Short-term	June 16–23, 2007	MFE
Unified Tax Code	Short-term	April 13–18, 2009	MoF, SRC
AML-CFT National Strategies and Coordination	Short-term	April 19–26, 2010	CBA
AML-CFT National Strategies and Coordination	Short-term	January–February 2011	CBA
AML-CFT National Strategies and Coordination	Short-term	March 2012	CBA, MoF

Subject	Type of Mission	Timing	Counterpart
Monetary and Capital Markets Department			
Strengthening the implementation of monetary policy	Short-term	March 8–21, 2006	CBA
Monetary policy implementation and money market development	Short-term	October 5–17, 2006	CBA
AML/CFT preventive measures	Short-term	April 1, 2006–April 30, 2007	
Inflation Targeting, Foreign Exchange Market Development and Responding to Dedollarization	Short-term	August 29–September 10, 2007	CBA
Exchange rate and collateral	Short-term	February 23–27, 2009	CBA
Contingency planning, crisis preparedness	Short-term	October 11–22, 2009	CBA
Contingency planning, crisis preparedness	Short-term	March 28–April 14, 2010	CBA
Workshop on Inflation Targeting (with IMF Research Dept.)	Workshop	April 27–May 6, 2011	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
Statistics Department			
Balance of payments: remittances	Short-term	August 22–September 5, 2006	CBA
Multi-topic mission: national accounts, balance of payments, monetary and financial statistics	Short-term	January 25–February 5, 2010	National Statistical Service, CBA
National accounts	Short-term	September 16–28, 2010	National Statistical Service
BOP and external debt statistics	Short-term	October 3–13, 2011	CBA
National accounts	Short-term	April 2012	National Statistical Service
Monetary statistics	Short-term	April 2012	CBA

Annex II. Armenia: World Bank and IMF Collaboration—JMAP Implementation
(As of April 27, 2012)

Title	Products	Provisional timing of missions	Expected delivery date (tentative)
1. Bank work program in next 12 months			
	Selected Ongoing and New Operations		
	Public Sector Modernization Project II (US$9m)	Semi annual	Project implementation started in September 2010
	Tax Modernization project (US$12m)		July 2012 targeted for WB board approval
	New DPO series to support competitiveness and safety nets (US$30m)	June, September, December 2012	January 2013 targeted for board date
	New Health Project for Disease Prevention and Control (US$30m)	Next mission in June	January 15, 2013 targeted for board date
	Analytical Work		
	Poverty monitoring and assessment	Continuous	Annual series; 2012 report due in September 2012
	Promoting productive employment in Armenia -- a note on labor market conditions	June 2012	September 2012
	Selected Technical Assistance		
	TA on tax policy and tax modelling	ongoing	September 2012
	Capacity building for mineral taxation	ongoing	2013
	TA on guillotine exercise	ongoing	2013
	Tax Audits and Macroprojections IDF	ongoing	2012
2. IMF work program in next 12 months			
	Fourth EFF/ECF Review	March 2012	May 2012
	Fifth EFF/ECF Review / 2012 Article IV Consultation Discussions	September 2012	November 2012
	Analyticial work expected on:		
	Regional linkages and spillovers; quality of fiscal spending; sustainable structural fiscal deficit; durability of the current account deficit; competitiveness and growth; exchange rate assessment; neutral or natural interest rate; dedollarization.	September 2012	December 2012
	Ex Post Assessment	Setptember 2012	December 2012
	Sixth EFF/ECF Review	March 2013	May 2013
	Technical Assistance/Training		
	FAD (follow up on tax adminstration)	TBD	TBD
	LEG (AML/CFT)	TBD	TBD
	STA (follow up mission on national accounts)	TBD	TBD
	MCM (follow up on inflation targeting regime)	TBD	TBD
3. Joint work program			
	FSAP Update	February 2012	May 2012
	DSA	September 2012	December 2012

ANNEX III. ARMENIA: RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

(As of April 27, 2012)

1. As of January 31, 2012, the EBRD had approved 106 projects in the power, transport, agribusiness, municipal and infrastructure, manufacturing and services, property, telecommunications and financial sectors. Total commitments amounted to €516 million. During 2011, the EBRD signed 21 projects, with a total volume of €93 million.

2. The EBRD has four sovereign projects. First, the bank approved a sovereign-guaranteed loan of €54.8 million for construction of the Hrazdan Unit 5 thermal power plant in 1993. The EBRD had funded technical assistance for the Hrazdan privatization prospectus and followed the privatization process. Second, in 1994, an agreement on a €21.8 million loan under sovereign guarantee was signed to build an air cargo terminal at Zvartnots International Airport in Yerevan. The airport was transferred under a concession agreement to private management in 2002; the new management has prepared a master plan for development of the airport, which is expected to generate further traffic for the cargo terminal. In 2007, the EBRD approved a €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 are being used to improve wastewater treatment in five municipalities located near Lake Sevan. In 2010, EBRD signed a €5.0 million sovereign loan with Yerevan Metro Company to provide for immediate rehabilitation needs, safety upgrades, and energy efficiency. The investment is part of a broader plan to improve and reform public transport services in the capital of Armenia.

3. Most of the EBRD's projects (93 percent) in Armenia are in the private sector. The EBRD has provided a major loan to Electric Networks of Armenia (see section 5 below). The Bank has also approved an additional loan to Zvartnots airport of €29.6 million, supplemented by investments from the AsDB and DEG. This project follows the successful completion in May 2007 of the first phase of the new passenger terminal, for which the Bank provided a €14.8 million loan together with DEG ($10 million). The second phase involves construction and purchase of equipment for the passenger terminal and will facilitate completion of terminal development and relocation of all arrival and departure operations from an older building. The loan was a commercial facility with no sovereign support. Other private sector finance includes smaller loans to private companies and equity participation in firms in various sectors of the economy.

In 2010, the Bank committed €53 million to Armenia through 25 transactions, including the sovereign loan to Yerevan Metro. The portfolio for 2010 comprised sixteen projects with financial institutions, six in agribusiness, one each in manufacturing and property, and the sovereign metro project. Two loans to financial institutions are in dram and two loans were syndicated. During January-October 2011, the Bank committed an additional €69 million through sixteen transactions: eleven in the financial institutions sector, two in telecoms, and one each in natural resources, agribusiness and municipal infrastructure. In July 2011, the EBRD committed €6.5 million under a sovereign project to improve water supply and sanitation in 17 settlements in Armenia. As part of this project, the EIB will provide a sovereign loan of €6.5 million and the EU NIF will provide a €7 million grant.

4. In the banking sector, the EBRD's first equity participation, in the Commercial Bank of Greece-Armenia (€1.1 million), was approved in late 1999. At present, there are four local banks where the EBRD participates in equity: Armeconombank, Byblos Bank Armenia, Ararat Bank and Procredit Bank. The EBRD also acquired an equity stake in a non-bank financial intermediary, Cascade Insurance and Reinsurance Company, a subsidiary of Cascade Capital Holding.

The Armenia Multi-Bank Framework Facility II (AMBFF II) was established to provide loans and equity to commercial banks and leasing companies in Armenia. It was approved by the EBRD's Board on March 8, 2006 for an amount of $40 million. The facility was extended by an additional $80 million on November 9, 2007. In late 2009, the EBRD approved a further $100 million extension to AMBFF II (AMBFF II Extension II) to support increased financial intermediation and financial sector development and to contribute to economic development by providing medium to long-term funding to selected Armenian financial intermediaries. Another extension of the facility is now being discussed. The facility will seek to develop new products for financial institutions, including local currency loans, agricultural credit lines and mortgage financing. Additional technical assistance will be provided to partner banks.

The EBRD has expanded its partner bank relationships from four to twelve (two EBRD clients, Ameria and Cascade banks, merged in 2010). Nine banks were provided with new credit facilities under the AMBFF. Armeconombank was provided with a mortgage facility, and the first leasing facility in Armenia was signed with ACBA Leasing in 2008 for €5.9 million. A co-financing facility with six local banks was extended, resulting in 14 sub-loans to Armenian corporates. By co-financing lines, the EBRD has entered new sectors such as healthcare and telecoms and has significantly expanding its portfolio of agribusiness loans. A trade financing facilitation program was also made available to nine Armenian banks. In the beginning of 2012, the EBRD signed a €2.2 million loan in a local currency with Finca Armenia, a micro-financing institution.

5. Supporting development of renewable energy is another core activity of the EBRD. The EBRD has joined with the World Bank, USAID, and Cascade Credit (a financing arm of the Cafesdjian Foundation) to launch the Armenian Renewable Energy Programme (AREP). The EBRD's participation took the form of a loan to Cascade Credit. The EBRD also continued to finance renewable energy projects on its own through a direct lending facility, with two projects signed. In addition to renewable energy, the EBRD has participated in other segments of the energy sector, seeking to support post-privatization development with a

loan to the privately-owned power distribution company. In April 2009, the EBRD signed a €42 million loan with Electric Networks of Armenia to modernize and upgrade the obsolete low-voltage infrastructure and improve energy efficiency.

6. The EBRD launched Turn Around Management (TAM) and Business Advisory Service programs in Armenia in 2003 to support micro, small, and medium-sized enterprises. Since 2003, BAS has completed 828 projects in the amount of €3.162 million, as well as 40 Market Development Activity projects.TAM delivered more than 20 projects. The programs were originally funded by the EU-TACIS program, but are now funded from the ETC Fund.

7. Projects identified by the EBRD for future development are well diversified across sectors, and include several larger transactions. Additional opportunities are expected in infrastructure, including public sector projects (mainly municipal). The EBRD is exploring projects in public transport, water, sanitation and solid waste treatment. The Bank has launched a $25 million program to finance projects for industrial energy efficiency and renewable energy through local banks. In October 2010, the first $3.0 million energy efficiency credit line was signed with Anelik Bank. Technical assistance has been put in place, financed by the Government of Austria.

8. As part of inspection reform and doing business programs, the EBRD is assisting the government to improve the business environment. The EBRD is actively supporting the preparation of a corporate governance code alongside the Ministry of Economy, the CBA, the Stock Exchange and 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.

9. The EBRD's current country strategy was approved in May 2009. The key priorities of the EBRD for the coming years are: (i) the financial sector; (ii) the enterprise sector, particularly SME and micro-enterprises financing through credit lines to Armenian banks or direct loans and equity investments, (iii) investments in alternative energy and municipal infrastructure and (iv) policy dialogue with the government, other multilateral and bilateral donors, and other stakeholders. A new EBRD country strategy for Armenia is currently being prepared for the period 2012–15 should be approved by mid 2012.

ANNEX IV. ARMENIA: RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ASDB)

(As of April 27, 2012)

1. The AsDB country operational business plan (COBP) for 2012−13 was endorsed by the Bank's Board of Governors in November 2011. The COBP will support the government's Sustainable Development Program (SDP—the government's poverty reduction strategy program) and help the authorities continue to counter economic vulnerabilities revealed by the crisis. The indicative focus areas under the COBP are: (i) urban development; (ii) regional cooperation; and (iii) private sector development. In 2012, the AsDB started preparing the first Country Partnership Strategy, to cover 2013–17.

2. As of May 1, 2012, the AsDB had approved loans for eight projects in the transport, municipal infrastructure, finance, and general budget support sectors. Total commitments amounted to $482.56 million for sovereign and $108.0 million for non-sovereign loans. One non-sovereign loan was provided to Armenia International Airports (ArIA) for the Zvartnots Airport Expansion Project (Phase 2). The loan finances the construction of a new terminal building and purchase of equipment to supplement the existing concourse building. In November 2011, the ADB approved a non-sovereign lending program totaling $65 million to enable commercial banks to expand their lending to small and medium-size enterprises.

3. The first AsDB sovereign loan ($30.6 million) was approved in November 2007 and financed rehabilitation of 220 km of rural roads. The second was a water supply and sanitation loan ($36 million) for repair and replacement of water supply infrastructure in small towns and villages, approved in December 2007. In April, 2012, the AsDB approved additional financing of $40 million to continue the project. The third was a supplementary loan ($17.3 million) to the rural roads project, approved in November 2008, to finance an increase in project costs from higher construction materials prices, domestic inflation, and appreciation of the dram. The fourth was a crisis recovery support program loan of $80 million, approved in July 2009, to protect budgetary social expenditures. The next two loans were Tranches 1 ($60 million) and 2 ($170 million) of the North-South Road Corridor investment program, approved in October 2009 and December 2010, respectively. Tranche 1 is providing for rehabilitation of 18.4 km of the four-lane Yerevan-Ashtarak highway and safety enhancement of a four-lane road between Yerevan and Ararat. Tranche 2 is providing for upgrading the Ashtarak-Talin road section from two-lane to four-lane first category road. The final loan was the first tranche ($48.6 million) of the Sustainable Urban Development Investment Program approved in April 2011. The project provides for construction of two missing road links of the Yerevan inner bypass and strengthening of institutional and management capacity of the Yerevan municipality and urban transport service providers.

4. With the exception of the North-South Road Corridor Tranche 2 investment program loan, all approved sovereign loans are from the AsDB concessional window under the Asian Development Fund (ADF). The Tranche 2 loan is from the AsDB's non-concessional window under ordinary capital resources.

5. In addition to loan projects, the AsDB is also involved in non-lending operations, mostly advisory services and capacity development technical assistance. This is mostly research-oriented and includes: Armenia's Transport Outlook, a transport-sector master plan for 2011−20; and Institutional Modernization to Improve the Business Environment, to assist the government with introduction of an online business registry system. Armenia is also included in a number of AsDB regional TA projects aimed at sustained growth. Some of the regional TA projects provide assessments and development plans in specific areas. The advisory TA may lead to loan projects.

6. To increase efficiency and long-term cooperation, the AsDB has offered a new instrument: project funding under the Multi-Finance Facility (MFF). The MFF allows approval of long-term sector assistance with disbursement in tranches. Under the MFF, the AsDB has approved $500 million for the North-South Road Corridor investment program. Funds will be available for 7 years, and Armenia will request them in tranches. The first and second $60 million and $170 million tranches have been approved. A $400 million MFF to help the government finance a share of the Sustainable Urban Development Investment Program will be available for a ten-year period from 2011 to 2020. The first $48.6 million tranche was approved in May 2011.

7. In 2011, AsDB signed trade finance agreements under AsDB's Trade Finance Program with six banks in Armenia, a move that is expected to further bolster the country's trade sector and help ensure sustainable economic growth.

ANNEX V. ARMENIA: STATISTICAL ISSUES
(As of April 27, 2012)

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 Fund has supported this process through technical assistance 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 the 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 should start 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 the 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 of the System of National Accounts. The NSS received IMF technical assistance on estimating quarterly GDP from discrete data sources only and using statistical techniques

that conform to international standards. Recent publications of the NSS have reflected this effort. The NSS 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 by the IMF statistics 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 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.

5. 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. The February 2009 ROSC mission recommended development of an approach to include household expenditure on owner-occupied dwellings in the CPI calculations.

Government finance statistics

6. 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.

7. 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.

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

Monetary and financial statistics

9. Monetary and financial statistics are provided on a timely basis. Data on the accounts of the Central Bank of Armenia (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.

10. 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 both in the IMF Statistics and CBA websites.

External sector statistics

11. 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 mission agreed with the authorities 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 mission took place in October 2011, which 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.

12. 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, on remittances, which account for a significant part of the inflows, 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 (ITRS) that would allow for collecting data on all cross-border payments and receipts going through the banking system.

13. 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 27, 2012)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	April 2012	4/23/2012	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	April 2012	4/22/2012	D	D	M
Reserve/Base Money	April 2012	4/23/2012	D	D	D
Broad Money	February 2012	3/28/2012	M	M	M
Central Bank Balance Sheet	March 2012	4/10/2012	D	M	M
Consolidated Balance Sheet of the Banking System	February 2012	3/28/2012	M	M	M
Interest Rates[2]	April 2012	4/20/2012	W	W	M
Consumer Price Index	March 2012	4/2/2012	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]— General Government[4]	Q4 2011	4/12/2012	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	February 2012	4/5/2012	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	March 2012	4/13/2011	M	M	Q
External Current Account Balance	Q4 2011	4/5/2012	Q	Q	Q
Exports and Imports of Goods and Services	March 2012	4/23/2012	M	M	Q
GDP/GNP	Q4 2012	4/3/2012	Q	Q	Q
Gross External Debt	Q3 2011	3/27/2012	Q	Q	Q
International Investment Position[6]	Q3 2011	3/27/2012	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).

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under EFF/ECF Arrangement for Armenia and Approves US$50.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed its fourth review of Armenia's economic performance under a program supported by Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements. The decision enables the authorities to draw an additional SDR 33.5 million (about US$50.7 million), bringing total disbursements under the arrangements to SDR 178.3 million (US$269.8 million). The three-year SDR 266.8 million (US$403.8 million) 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 fourth review was taken on a lapse of time basis.[1]

Adherence to the policies agreed under the Fund-supported program has played an important role in helping Armenia restore solid growth. The outlook for 2012 and the medium-term is positive, but not without risks, particularly stemming from Europe and affecting Armenia via Russia. Growth picked up to 4.6 percent in 2011, but is expected to moderate to just below 4 percent in 2012. Inflation has come down significantly over the past year and should remain near the central bank's target of 4 percent. Credit growth remains strong. The Board is also considering a Financial Sector Stability Assessment (FSSA) for Armenia, under the Financial Sector Assessment Program of the IMF and the World Bank.

The 2011 fiscal deficit was well below program targets, reflecting restrained spending. The deficit is likely to be moderately higher in 2012, but still in line with the program, and with higher expected revenues allowing for increases in priority spending. The external current account deficit has declined significantly, helped by the fiscal adjustment, but remains high. The authorities plan to implement further business environment and tax and pension reform measures. Together with enhanced exchange rate flexibility, these actions should improve productivity and support growth and diversification of exports.

[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.