

April 1998

IMF Staff Country Report No. 98/22

## **Republic of Armenia: Recent Economic Developments**

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
700 19th Street, N.W. • Washington, D.C. 20431

Telephone: (202) 623-7430 • Telefax: (202) 623-7201

Telex (RCA): 248331 IMF UR

Internet: [publications@imf.org](mailto:publications@imf.org)

Price: \$15.00 a copy

**International Monetary Fund**  
**Washington, D.C.**



INTERNATIONAL MONETARY FUND

REPUBLIC OF ARMENIA

**Recent Economic Developments**

Prepared by a staff team consisting of Luis Valdivieso (head),  
Esther Suss, Balázs Horváth (all EU2),  
Ala'a Al-Yousuf (PDR), and Rina Bhattacharya (FAD)

Approved by the European II Department

January 23, 1998

	Contents	Page
I.	Introduction and Background .....	4
II.	Real Sector Developments .....	5
	A. Output Growth and Sectoral Developments .....	5
	B. Prices, Wages and Employment .....	7
III.	Fiscal Policy Developments .....	11
	A. Overview and Background .....	11
	B. Fiscal Developments During 1997 .....	15
	C. Social Safety Net .....	17
	D. Tax Administration and Expenditure Control .....	18
IV.	Monetary and Exchange Rate Policy Developments .....	19
	A. Overview and Background .....	19
	B. Monetary and Credit Aggregates .....	20
	C. Exchange and Interest Rates Developments .....	22
	D. Monetary Policy Instruments .....	23
V.	External Sector Developments .....	25
	A. Overview and Background .....	25
	B. Merchandise Trade .....	27
	C. Services and Transfers .....	30
	D. Capital Account .....	30
	E. External Debt .....	31

F.	Exchange and Trade System .....	33
VI.	Structural and Legal Reforms .....	34
A.	Privatization .....	34
B.	Banking and Payments System .....	36
C.	Energy Sector Financial Rehabilitation .....	38
D.	Legal Reforms .....	40

### Boxes

1.	Treasury bills and Open-Market Operations .....	25
2.	Main Elements of the Financial Rehabilitation Program for the Energy Sector .....	39
3.	Ardshinbank Restructuring .....	49

### Appendices

I.	The Privatization of Armentel .....	46
II.	Banking System Restructuring .....	47

### Text Tables

Table 1 - Basic Economic Indicators .....	3
Table 2 - Consolidated Government Operations in billions of drams, 1994-97 .....	41
Table 3 - Consolidated Government Operations in percent of GDP, 1994-97 .....	42
Table 4 - Accounts of the Central Bank, 1994-97 .....	43
Table 5 - Monetary Survey, 1994-97 .....	44
Table 6 - Quarterly Balance of Payments and External Financing, 1994-97 .....	45

### Statistical Appendix Tables

Table 1 - Real Gross Domestic Product Growth, 1994-1997 .....	51
Table 2 - Gross Domestic Product, 1994-97 .....	52
Table 3 - Production of Selected Agricultural Products, 1994-97 .....	53
Table 4 - Production of Selected Industrial Commodities, 1994-97 .....	54
Table 5 - Total Electricity Generation, Distribution, and Collection, 1994-97 .....	55
Table 6 - Consumer Prices, 1994-1997 .....	56
Table 7 - Regulated Prices for Main Commodities and Services, 1994-97 .....	57
Table 8 - Average Monthly Wages in the State Sector, 1994-97 .....	58
Table 9 - Labor Force, Employment, and Unemployment, 1994-97 .....	59
Table 10 - Labor Market Indicators, 1994-97 .....	60
Table 11 - Employment in the Public Sector, 1994-97 .....	61
Table 12 - Budgetary Sector Employment, 1994-97 .....	62
Table 13 - State Government Operations, 1994-97 .....	63
Table 14 - State Government Operations, 1994-97 .....	64

Table 15 - Distribution of Tax Revenues in the Consolidated Budget, 1994-97 .....	65
Table 16 - Distribution of Current Expenditure in the Consolidated Budget, 1994-97 .....	66
Table 17 - Pension and Employment Fund, 1994-97 .....	67
Table 18 - Pension and Employment Fund, 1994-97 .....	68
Table 19 - Pension Recipients and Average Pensions .....	69
Table 20 - Unemployment Benefits, 1994-97 .....	70
Table 21 - Banking Sector Loans, 1994-97 .....	71
Table 22 - Commercial Banks' Interest Rates for Loans and Deposits in Dram, U.S. Dollar, and Russian Rubles, 1994-97 .....	72
Table 23 - Commodity Composition of Trade .....	73
Table 24 - Direction of Trade .....	74
Table 25 - Summary External Data, 1994-97 .....	75
Table 26 - Incorporatized and Partially Privatized Enterprises, 1994-97 .....	76
Table 27 - Arrears to Banks, 1994-97 .....	77
Table 28 - Selected Energy Prices, 1994-97 .....	78



Table 1. Armenia: Basic Economic Indicators

	1994	1995	1996	1996 Jan.-Sept.	1997 Jan.-Sept.
GDP (billions of dram) 1/	187	522	660	473	558
Real GDP growth (percent change) 2/	5.4	6.9	5.8	4.5	2.9
GDP in US\$ million at current exchange rates	651	1,286	1,594	1,158	1,144
Period average inflation in percent	5,273	177	18.7	30.8 3/	10.9 3/
End-period inflation in percent	1,885	32	5.8	16.4 4/	22.6 4/
Period average dram/US\$ exchange rate	287	406	413	408	488
End period dram/US\$ exchange rate	406	402	435	412	501
<i>Fiscal Sector (in percent of GDP)</i>					
<i>Consolidated Budget 5/</i>					
Total revenue and grants	27.7	19.9	17.7	14.1	17.4
<i>of which: Tax revenue</i>	13.1	12.7	12.9	11.0	14.8
Total Expenditure and net lending	44.1	29.8	26.3	23.5	22.7
Budget balance (accrual; deficit '-')	-16.4	-9.9	-8.6	-9.4	-5.3
Budget balance (cash; deficit '-')	-10.1	-12.0	-9.3	-10.4	-4.9
<i>State budget 6/</i>					
Total Revenue and Grants	26.1	17.8	15.1	11.6	14.2
<i>of which: Tax revenue</i>	11.5	10.7	10.7	8.8	11.9
Total Expenditure and net lending	42.9	27.3	23.7	21.0	19.6
State budget balance (accrual; deficit '-')	-16.8	-9.6	-8.6	-9.4	-5.4
State budget balance (cash; deficit '-')	-10.5	-11.7	-9.3	-10.5	-4.9
<i>Monetary Sector</i>					
Net domestic assets of the CBA 7/	633.5	21.7	15.6	57.7	-30.6
Reserve Money (end of pd. growth rate, in percent)	833.2	97.9	40.5	25.3	18.5
Broad Money (end of pd. growth rate, in percent)	684.2	68.7	35.1	30.2	24.4
Velocity 8/	4.8	3.7	3.4	3.4	2.9
Dram Broad Money (end of pd. growth rate, in percent)	726.9	129.9	34.1	28.0	8.8
Dram Velocity 8/	8.2	4.6	4.4	4.4	4.2
<i>External Sector</i>					
Current account balance (millions of U.S. dollars) 9/	-231	-483	-424	-298	-312
in percent of GDP	-35.6	-37.5	-26.6	-25.8	-28.1
Total External debt (millions of U.S. dollars)	200	371	614	532	735
in percent of GDP	30.8	28.8	38.5	45.9	47.1
External debt service (In percent of exports of G&NFS)					
On amounts due	3.0	20.6	18.7	11.5	23.2
On amounts paid	12.3	4.2	12.4		14.4
Gross official international reserves (millions of US \$)	32	107	168	130	224
In months of imports of goods & non-factor services	0.7	1.6	2.2	1.6	2.5

1/ Cumulative from beginning of the year, seasonally adjusted.

2/ Over same period of previous year; January-September data are seasonally unadjusted.

3/ Average inflation during the 12 months ending in September relative to the same period in the previous year.

4/ Inflation during the 12 months ending in September.

5/ Includes the republican and local budgets, and operations of the Pension and Employment Fund.

6/ Includes the republican and local budgets.

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

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

9/ Excludes official transfers.

## I. INTRODUCTION AND BACKGROUND

1. In the two years after gaining independence in 1991, Armenia endured a severe collapse of output and hyperinflation. These adverse developments were precipitated by the loss of traditional economic ties and markets due to the break-up of the U.S.S.R.; the shift toward market-related, rather than controlled prices as part of the transition to a market economy; civil disturbances in Georgia, a major supply route; and the Nagorno-Karabakh conflict, which led to an economic blockade imposed by Azerbaijan and Turkey.
2. The government began establishing the basis for stability and reform starting with the introduction in November 1993 of the national currency, the dram. In 1994, a ceasefire agreement was reached, and by the end of that year, with the financial support of international financial institutions and donors, the government embarked on a comprehensive program of macroeconomic stabilization and structural reform.<sup>1</sup> Following two years of sustained implementation of tight fiscal and monetary policies, hyperinflation had been eliminated and the decline in real wages contained. The stability achieved, combined with broad ranging structural reforms—including a comprehensive land reform, substantial price liberalization, privatization, and decisive steps in reforming banking, education and health—created the basis for annual average real GDP growth of about 6 percent during 1994-96.
3. In the early part of the second semester of 1996, however, there was a relaxation of financial policies, partly associated with the onset of the presidential elections. As a result, there were mounting pressures on prices and the exchange rate, which together with some political tension, contributed to develop a climate of uncertainty. The lagged effects of the more expansionary stance of late 1996, combined with real shocks in early 1997, especially poor weather, and a loss in the momentum in structural reform, particularly privatization, led to a slowdown in growth to around 3 percent during the first nine months of 1997 compared to the same period in 1996, and inflation, measured by the 12-month increase in consumer prices, rose to 23 percent by end-September 1997 from 16½ percent a year earlier. The overall situation has been further complicated by the lack of progress toward a permanent peace settlement in Nagorno-Karabakh, and, as a result, the blockade has continued to place a heavy burden on the economy.

---

<sup>1</sup> These policies were supported by resources under the IMF's Systemic Transformation Facility, a Stand-By Arrangement and from 1996, financial support under the Enhanced Structural Adjustment Facility. The World Bank provided a Rehabilitation Credit and two Structural Adjustment Credits.



## **II. REAL SECTOR DEVELOPMENTS**

### **A. Output Growth and Sectoral Developments**

4. The recovery in output during 1994-96, which was led by increases in the trade, services and construction sectors, slowed during the first three quarters of 1997, and real GDP grew by only 2.9 percent relative to the same period in the previous year, compared with 4.5 percent in the corresponding period of 1996. A decline in agriculture and a slowing of activity in the construction sector were only partially offset by the continued strong performance of trade and other services (Table 1 and Figure 1). The shares of agriculture and industry in nominal GDP have declined sharply from 1994 to 1997, while the share of trade and other services have grown, reflecting the ongoing structural changes in the economy (Statistical Appendix Tables 1-2).

#### **Agriculture**

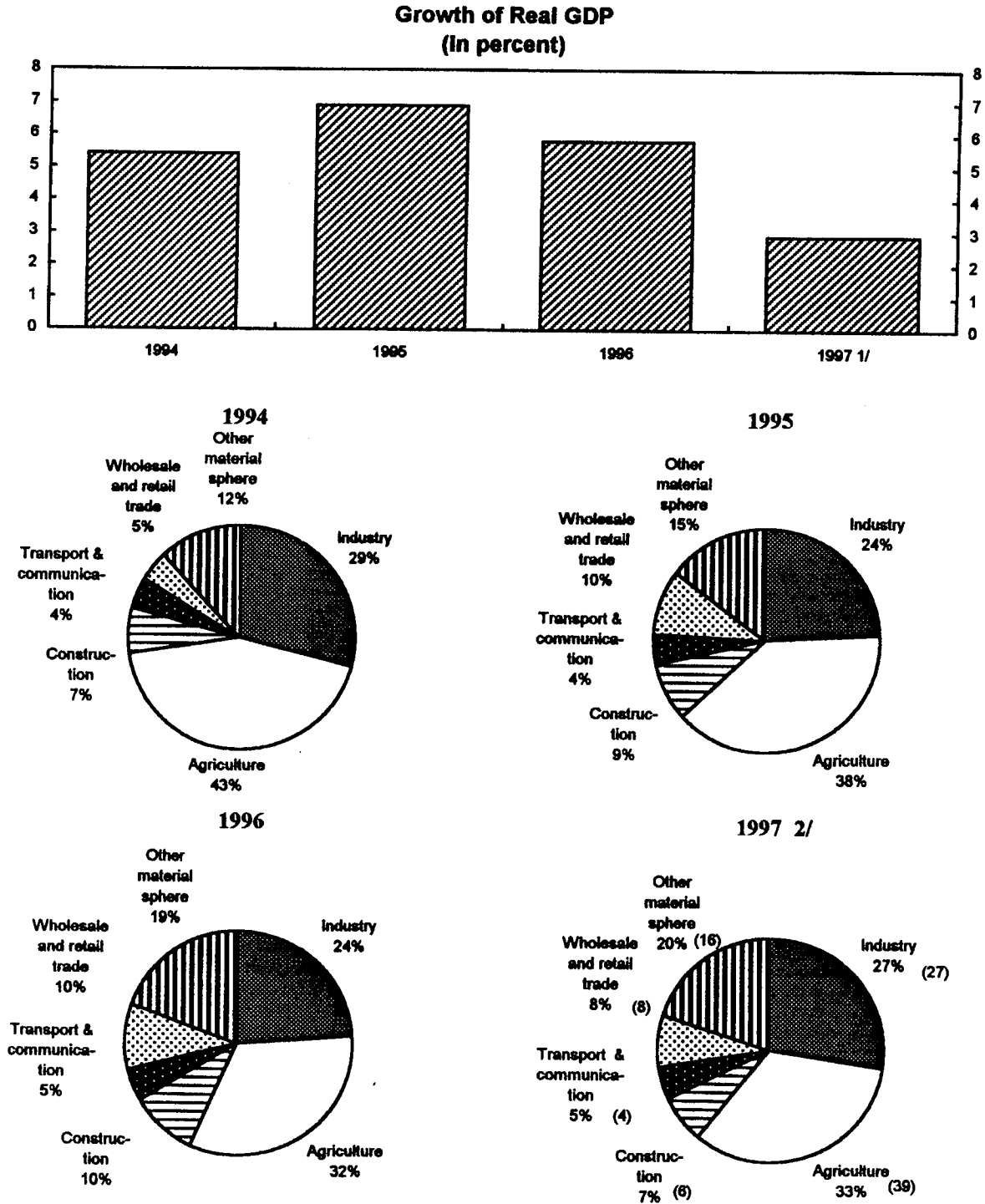
5. The strong agricultural output growth in 1993-95 which was supported by the privatization of agricultural land and the high protection given by the economic blockade, could not be sustained due to: (i) a lowering of the cost of imported foodstuffs in which Armenia does not have a comparative advantage as new trade routes developed; and (ii) an increase in the imports of wheat and flour in the form of humanitarian assistance. As a result, the share of agriculture in total output has declined from about 40 percent in 1994-95 to about 33 percent in 1996-97. Notwithstanding the declining share of agriculture in total output, the agricultural sector continues to provide employment to a large portion of the labor force, growing from 34 percent of the total in 1994 to over 40 percent in 1996-97. Currently there are over 300,000 private farms producing 95 percent of agricultural output.

6. In the first three quarters of 1997, agricultural output fell by 5 percent compared to the same period in 1996 owing to the impact of adverse weather in the second quarter on the production of fruits and vegetables. Although Armenia continues to depend heavily on food imports and humanitarian assistance, the production of grains, vegetables and milk has increased over the last several years, and grain-based agroprocessing industries such as bread bakeries and pasta plants operate at high levels of capacity. However, the production of grapes, a traditional product, has declined sharply owing to the fall in output of the wine-based agroprocessing sector, as wine producers have been unable to compete in traditional or new markets in light of the out-dated technology in use (Statistical Appendix Table 3).

#### **Industry**

7. Prior to independence, the Armenian economy was heavily industrialized, particularly in light industry and high technology goods, and thus, given the relatively poor resource endowment, heavily dependent on imports of semi-finished products and energy. In response to a shift in the terms of trade as imports were increasingly valued at world market prices, and the loss of traditional markets, industrial production has undergone significant changes.

**Figure 1. Armenia: Real GDP Growth and Sectoral Distribution of Nominal GDP**



Source: State Department of Statistics.

1/ First three quarters of 1997 relative to the same period in 1996; seasonally unadjusted data.

2/ Based on the first three quarters, seasonally unadjusted data. Numbers in parenthesis give the shares of each sector during the first three quarters of 1997.

Labor-intensive, energy-efficient industries have thrived, especially if their outputs were easily transported and marketed internationally, as was the case with jewelry production and textiles. However, many traditional industries, such as those producing chemicals and synthetic rubber, have suffered sharp reductions in output as domestic energy prices adjusted toward world market levels (Statistical Appendix Table 4). Restructuring of the industrial sector is at an early stage, and many of the industries are characterized by obsolete technology and machinery.

### **Energy sector**

8. Electricity generation has increased significantly in 1995-97 owing largely to the recommissioning of the Metzamor nuclear power plant in November 1995. In 1995, the vast majority of electricity production came from thermal plants, whereas by the first half of 1997, some 40 percent of total production was from the nuclear plant (Statistical Appendix Table 5). The reduced dependence on gas imports for electricity generation has resulted in a 15 percent fall in the value of gas imports in the first three quarters of 1997 compared to the same period in 1996, to US\$53 million. The elimination of the intergovernmental clearing trade agreement with Turkmenistan as of January 1996 also acted to reduce gas imports by placing trade in natural gas on commercial terms. The government has been investing in the improvement and enlarging of one of the main thermal plants, Hrazdan, with financing from the EBRD. This investment is expected to continue for the next several years, with the eventual goal of privatizing the generating plant.

### **Telecommunications**

9. Value-added in the telecommunications sector has grown marginally in the last two years reflecting the need for large investment to replace the outdated equipment and to develop an effective telecommunications network. In 1996, Armentel, a joint venture company with American participation, began to digitalize the telephone system. In October 1997, the government offered this company for privatization through an international tender, which was won by a consortium led by a Greek company in December 1997. Further details are given in Appendix I.

## **B. Prices, Wages and Employment**

10. As a result of the tight financial policies implemented as part of the overall stabilization program, inflation, as measured by the 12-month change in the consumer price index, fell steadily from over 1,800 percent in 1994 to under 6 percent in 1996 (Statistical Appendix Table 6). In 1997, inflation picked up somewhat to 23 percent in the 12 months ending September 1997 owing in part to increases in administered prices for energy, water and

telecommunications as well as to an easing of credit policies in the second half of 1996 and early 1997 (Figure 2).<sup>2</sup>

11. Armenia has liberalized most prices and sharply reduced consumer subsidies, including that on bread. Only the prices of very few items, such as utilities and communal services (rents, sewage and garbage) remain subject to regulation, and most of them have been raised significantly in each of the past three years (Statistical Appendix Table 7). Between 1994 and 1997, rents and prices for communal services have increased by over 1,000 times while urban transport fees have gone up by 900 percent.<sup>3</sup>

12. After plummeting by over 75 percent from 1993 to 1994, real wages in the state sector<sup>4</sup> have steadily increased on average by 16 percent in 1995-96 and by 20 percent in the first three quarters of 1997 compared with the same period of 1996 (Statistical Appendix Table 8). This has been possible in part owing to the government's continued efforts to reduce the size of employment in budgetary organizations. In terms of U.S. dollars, Armenian wages, at US\$25 a month by end-September 1997, remain among the lowest in the Baltics, Russia and other countries of the former Soviet Union, in spite of having increased in each year since 1994 (Figure 3).

13. Wages in the state sector vary sharply among sectors, although the disparity seems to be declining (Statistical Appendix Table 8). Wages in the finance and insurance sector are the highest, followed by communications, transport and construction. Wages in the social sectors, including health, education and general administration remain the lowest notwithstanding substantial increases during the recent years.

14. The official unemployment rate has increased from 7 percent in 1994-95 to over 10 percent during the first half of 1997 (Statistical Appendix Tables 9-10). However, the official employment and unemployment numbers continue to understate the true extent of changes in the Armenian labor market. The State Department of Statistics has begun to conduct surveys to more accurately determine the number of employed and unemployed persons. Although employment in the budgetary sector has been declining, with most reductions occurring in the health and education sectors (Statistical Appendix Tables 11-12), the state sector continues to employ a significant portion of the labor force. Employment in the private sector is estimated to have reached over 50 percent of total recorded employment by the first half of 1997, mainly to the result of the advances in the privatization program for small- and medium-sized enterprises.

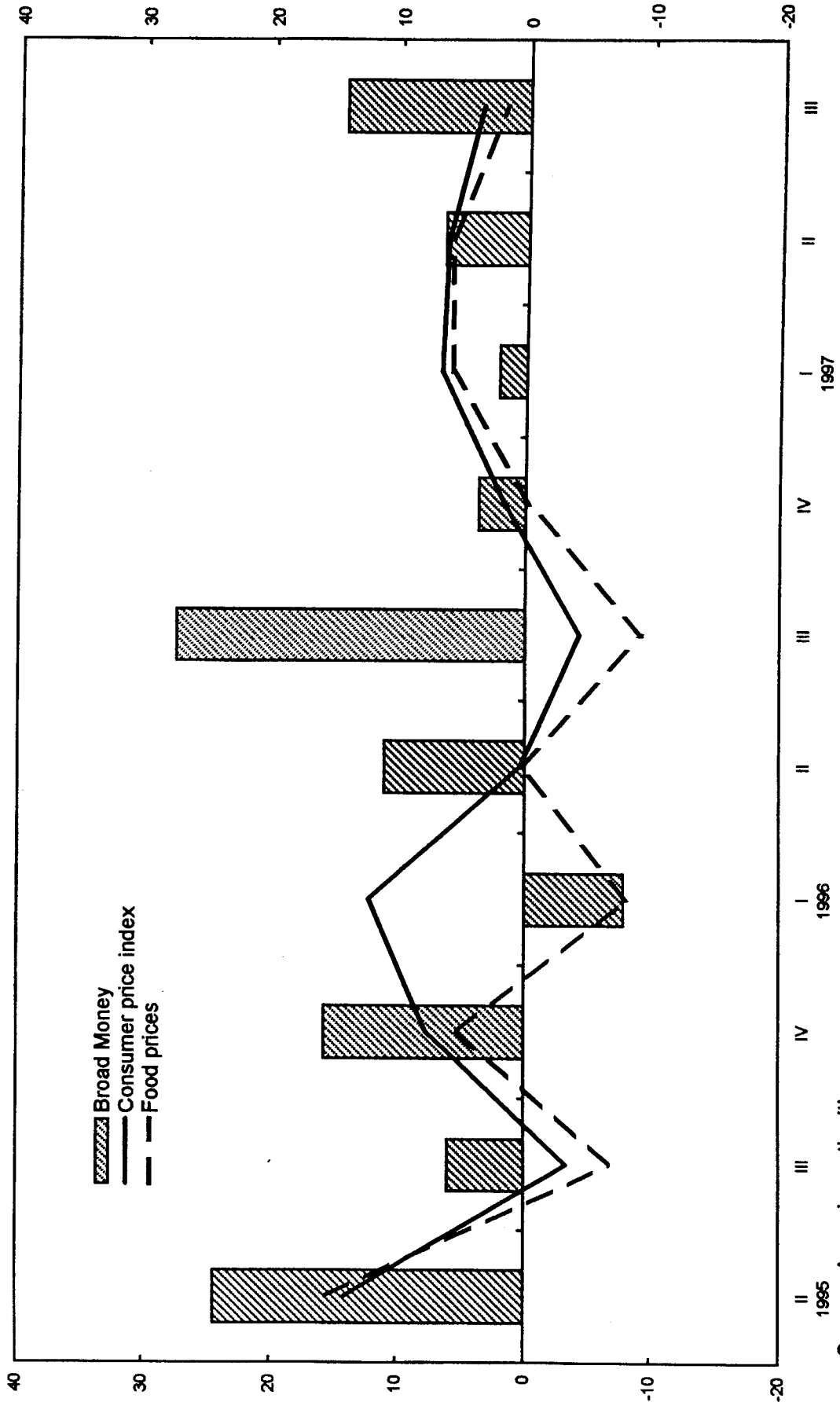
---

<sup>2</sup>For more details, see section IV.

<sup>3</sup>For a discussion of electricity tariffs see section VI.

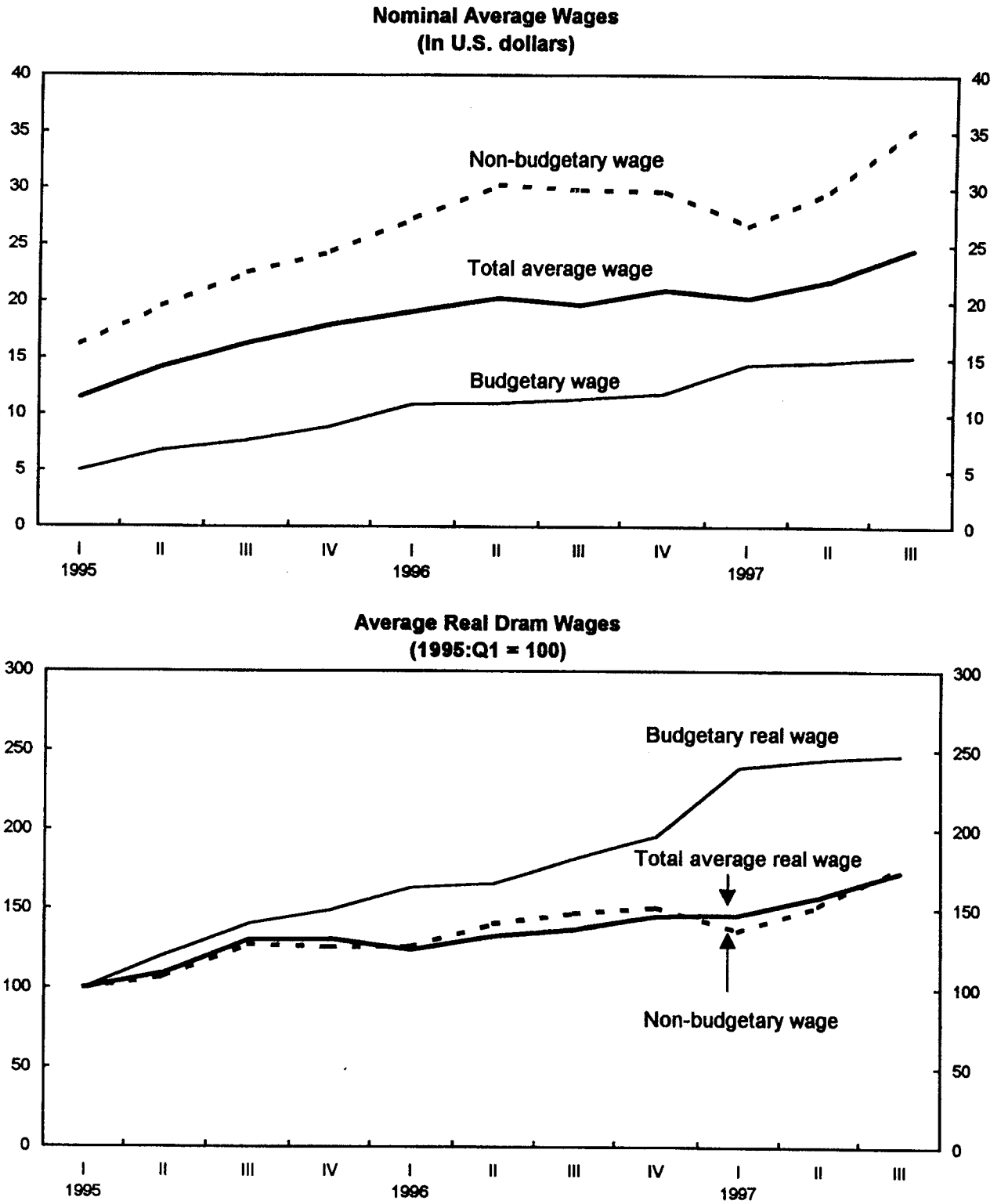
<sup>4</sup>Comprising budgetary organizations and state enterprises.

Figure 2. Armenia: Inflation, Food Prices, and Broad Money  
(Percent change over previous period)



Source: Armenian authorities.

**Figure 3. Armenia: State Sector Wages**



Sources: Armenian authorities; and Fund staff estimates.

### III. FISCAL DEVELOPMENTS

#### A. Overview and Background

15. The consolidated fiscal accounts, which provide a comprehensive overview of public finances in Armenia, cover the operations of the republican (central) government, the 932 municipalities (or local governments),<sup>5</sup> and the Pension and Employment Fund (PEF). The State Budget covers the operations of the republican and local governments. Only the central government has the authority to tax. The local governments are direct agents of the central government and do not have autonomous fiscal authority. However, they do have the power to levy fees and rents and apply the proceeds to finance local expenditures, and receive transfers from the central government, including all the revenues collected from land taxes. The main sources of revenue for the PEF are payroll taxes and transfers from the central budget, while its expenditures consist of payments of pensions and unemployment benefits.

16. Following an expansionary fiscal policy characterized by extremely high budget deficits before 1994, the fiscal stance was tightened. The accrual deficit of the consolidated government budget fell steadily from 16½ percent of GDP in 1994 to 8½ percent of GDP in 1996 (Tables 2-3, Statistical Appendix Tables 13-14, and Figure 4). The composition of financing changed significantly, as reliance on credit from the Central Bank of Armenia (CBA) was reduced in line with increased disbursements of net external credits. The accumulation of expenditure arrears as a source of financing also declined in importance during this period.

17. Sizable reductions occurred in total revenues and grants, especially in foreign grants. Despite efforts to broaden the tax base, total tax revenues remained at around 13 percent of GDP in 1994-96 due to administrative difficulties in taxing newly emerging sectors of the economy, the lower level of profitability in the state enterprise sector, persisting tax arrears and widespread tax exemptions. There were also significant changes in the composition of tax revenues, with the relative share of the enterprise profit tax declining over time, while that of the VAT and payroll tax increased (Statistical Appendix Table 15, and Figure 5). Grants accruing to the budget (mainly the domestic counterpart to food aid in the form of flour and grain) fell from a peak of around 12 percent of GDP in 1994 to under 4 percent of GDP in 1995-96, following the halting of hostilities in the region.

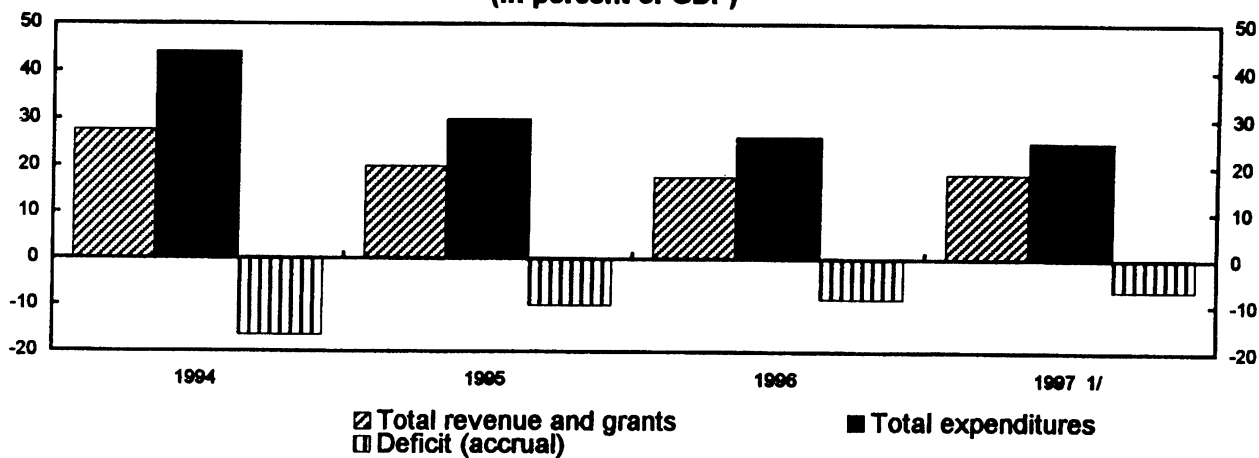
18. Total expenditures of the consolidated government also fell sharply from 44 percent of GDP in 1994 to 26 percent in 1996, as inefficient current spending was drastically reduced. In particular, the share of subsidies in total current expenditures fell sharply, as social safety net payments became better targeted (Statistical Appendix Table 16, and Figure 6). Part of the adjustment also came from lower capital expenditure, which declined from almost 10 percent

---

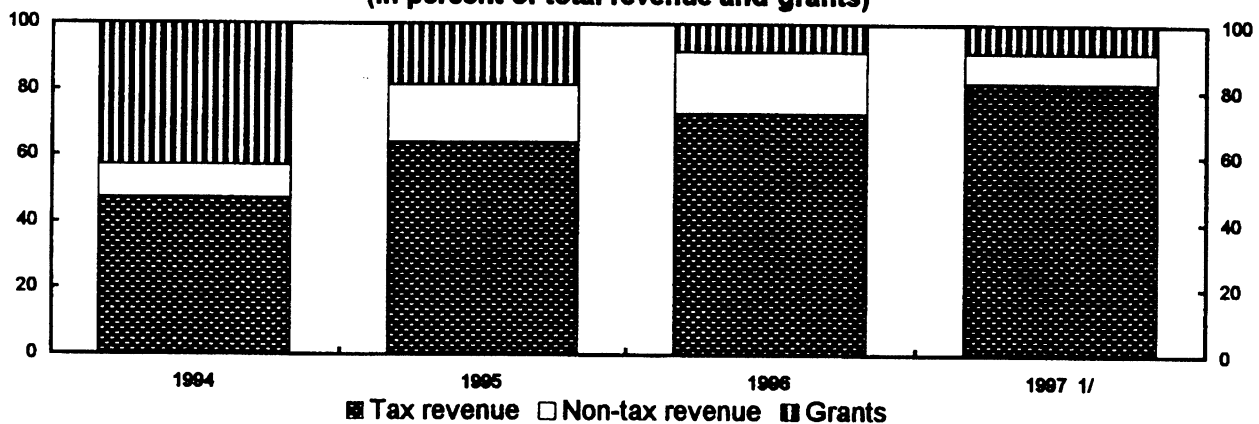
<sup>5</sup>Prior to 1997, the local governments were comprised of 11 marzes, or regional authorities, each of which contained municipalities. In 1997, the status of the marzes was replaced by 932 municipalities, which now constitute the "local authorities".

**Figure 4. Armenia: Public Finance**

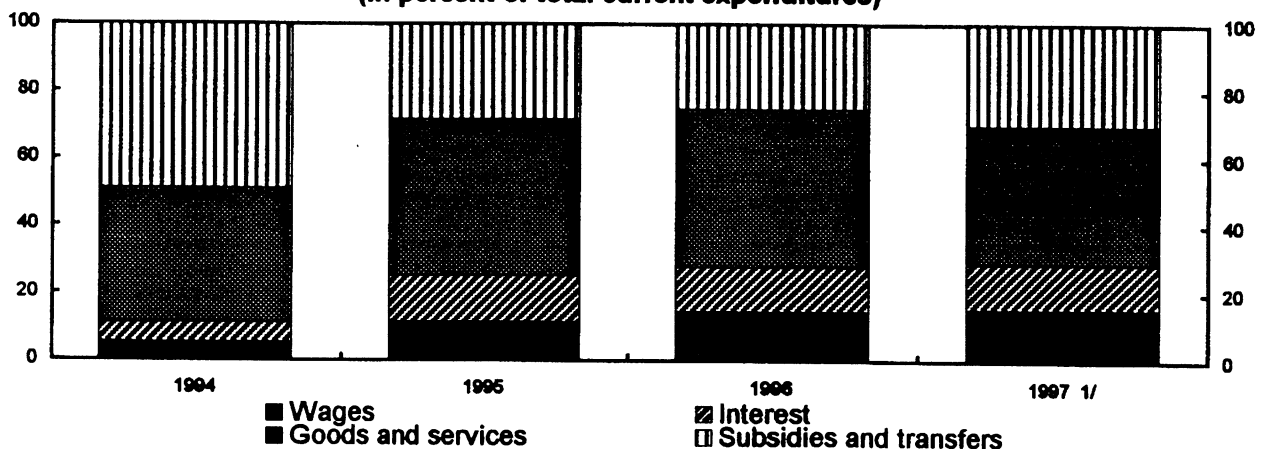
**Total Revenue, Expenditures, and Deficit  
(In percent of GDP)**



**Composition of Revenues  
(In percent of total revenue and grants)**



**Composition of Current Expenditures  
(In percent of total current expenditures)**

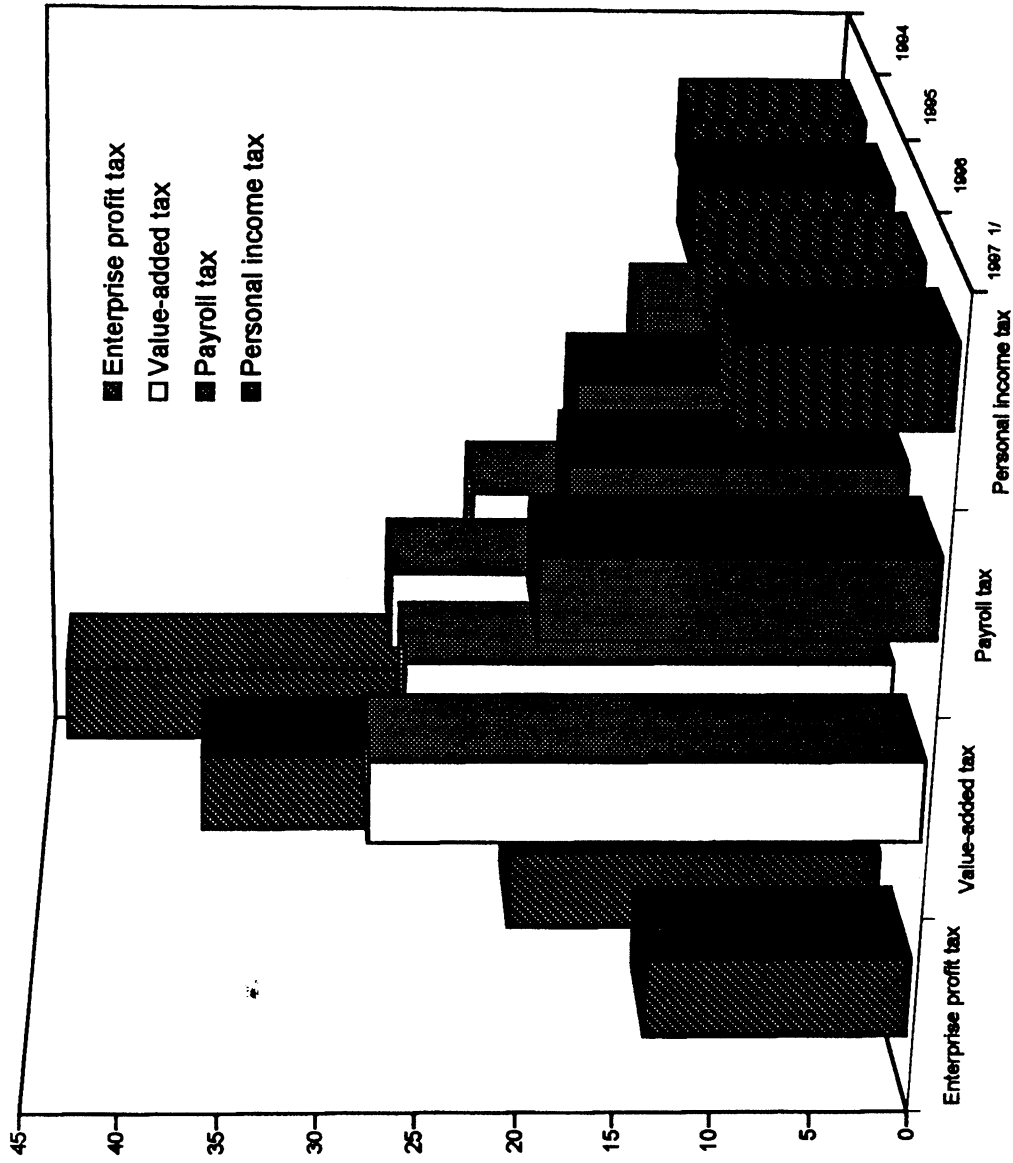


Sources: Armenian authorities; and Fund staff estimates.

1/ Projected, based on actuals for the first three quarters.



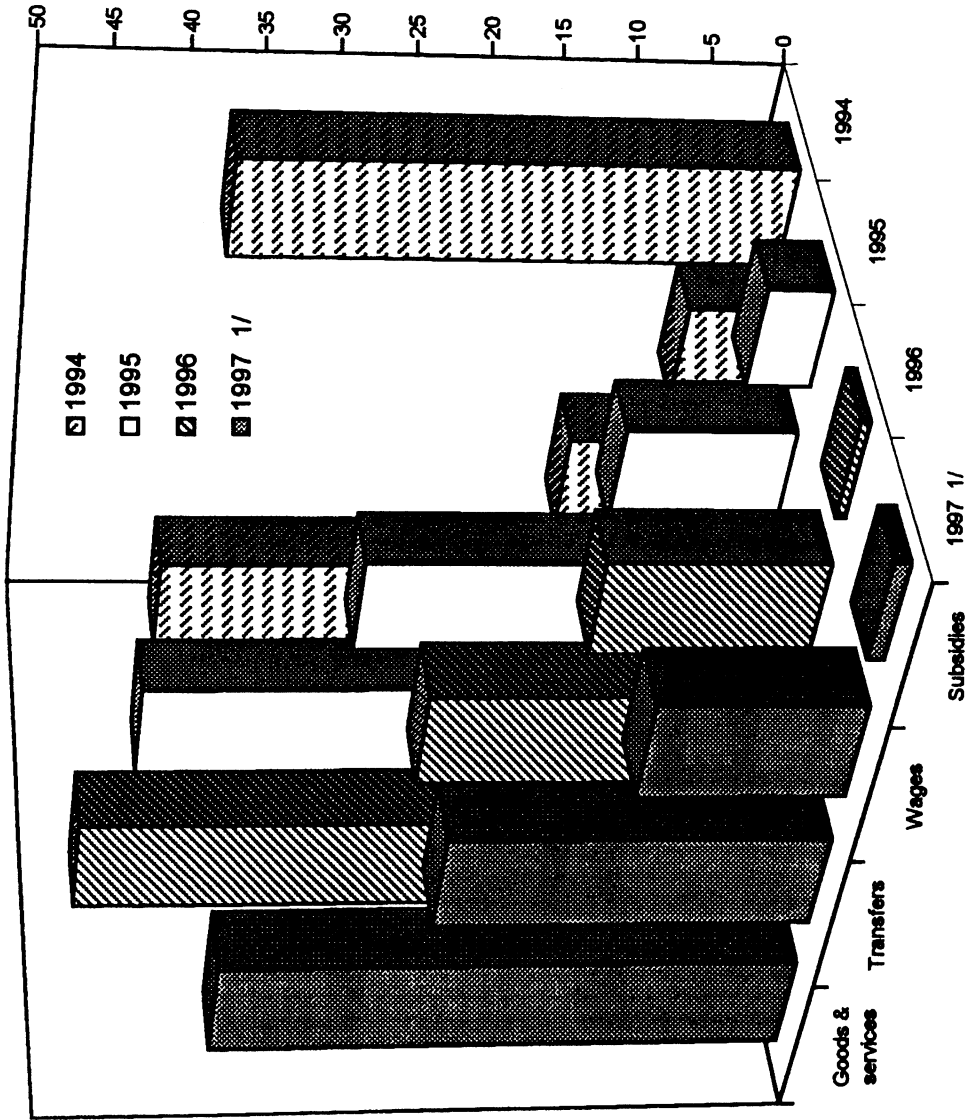
**Figure 5. Armenia: Composition of Tax Revenue, 1994 - 97**  
(In percent of total tax revenue)



Sources: Armenian authorities; and Fund staff estimates.

1/ Based on actuals for the first three quarters of 1997.

**Figure 6. Armenia: Composition of Current Expenditures, 1994 - 97**  
 (In percent of total current expenditures)



Sources: Armenian authorities; and Fund staff estimates.

1/ Based on the first three quarters of 1997.

of GDP in 1994 to around 4 percent of GDP in 1996. Additionally, net lending to enterprises—an implicit subsidy to the enterprise sector, given the poor repayment discipline and the highly negative real interest rates until late 1995—was sharply reduced during this period.

### **B. Fiscal Operations During 1997**

19. The overall deficit of the consolidated government budget on an accrual basis (including grants) fell from 8.6 percent in 1996 and to 5.4 percent in the first three quarters of 1997. The cash deficit also fell, from 9.3 percent of GDP in 1996 and to 4.9 percent of GDP in the first three quarters of 1997.<sup>6</sup> The cash deficit was financed entirely by net external credits in the first three quarters of 1997. The domestic fiscal balance—which identifies the direct expansionary fiscal impact on the domestic economy—fell from 7.8 percent of GDP in 1996 and to 3.7 percent of GDP in the first three quarters of 1997.<sup>7</sup>

#### **Revenues**

20. Tax revenues rose by 1.9 percentage points to 14.8 percent of GDP in the first three quarters of 1997 compared to 1996 reflecting several new measures which increased tax rates and broadened the base for taxes, as well as improvements in tax administration. However, tax collections were boosted by netting-out operations amounting to 10.9 billion drams, or almost 16½ percent of tax collections in the first three quarters of 1997.<sup>8</sup> The authorities eschewed netting-out operations starting August 1, 1997, and experienced a significant improvement in cash tax revenue performance during the third quarter. Nevertheless, higher tax revenues were insufficient to fully offset lower grants and nontax revenues, which declined from 4.8 percent

---

<sup>6</sup>Part of the overall deficit has been financed by changes in expenditure arrears. In 1996, those arrears were reduced by the equivalent of 0.7 percent of GDP, while during 1997, new arrears equivalent to 0.4 percent of GDP were incurred. Reportedly, there were arrears on wages, child allowances, and transfers to the Pension Fund. However, most of these overdue payments were settled within three weeks after the due date or were related to discretionary transfers.

<sup>7</sup>In the past, the important role played by external assistance in-kind (in the form of grants or concessional loans) has led to a significant problem in measuring the level of budgetary grants and financing, due to difficulties related to valuation, the timing and extent of monetization of these resources. This has resulted in discrepancies between the overall budget deficit obtained from the financing side and the deficit as measured from above the line. Accounting was also complicated by the various constraints placed by donors on the use of the resulting funds.

<sup>8</sup>However, the use of netting-out operations in 1997 was lower than in previous years. In 1995, these operations amounted to dram 9.6 billion (17 percent of total tax revenues), and in 1996 to dram 17.8 billion (21 percent of total tax revenues).

of GDP in 1996 to 2.3 percent of GDP in the first three quarters of 1997. As a result, total revenues and grants as a percentage of GDP fell from 17.7 percent in 1996 to 17.4 percent in the first three quarters of 1997.

21. The major sources of tax revenues for the budget in both 1996 and the first nine months of 1997 were VAT, excise taxes, the Enterprise Profit Tax (EPT) and the payroll tax, together accounting for around three-quarters of tax revenues, or 9.7 percent of GDP in 1996, and 11.0 percent of GDP in the first three quarters of 1997. The only main form of tax to register a decline in collections was the EPT, which fell from 2.5 percent of GDP in 1996 to 2.0 percent of GDP in the first three quarters of 1997, mainly reflecting the slowdown in economic activity during the course of the year, particularly in the export sector.

22. In 1997, a number of important tax reform measures were introduced, including a new VAT law that became effective from July 1, 1997. Under this law: (i) VAT on imported goods is now levied by the Customs Administration at the point of import, instead of being paid after sale by the importer in the domestic market; and (ii) all trade is now taxed according to the destination principle (whereby imports are taxed while exports are not taxed).<sup>9</sup> Revenue developments in the third quarter of 1997 and preliminary information up to early December, indicate that both measures have contributed to improve tax collection as they have substantially reduced the scope for tax evasion by importers, and broadened the VAT base, given Armenia's trade deficit vis-à-vis CIS countries.

23. A new Excise Tax Law also became effective from July 1997 which: (i) introduced a new excise tax on diesel at 10 percent, while increasing the excise tax rate on gasoline to 35 percent; (ii) provided for a flat 15 percent excise tax rate on all cars; and (iii) introduced specific excises on liquor products and cigarettes. Excise taxes on imports are now also collected at the border, along with VAT.

24. Other changes in the tax system included the enactment of a revised Law on Customs Duties, which halved the value of the goods for personal use which individuals are allowed to import duty-free during each trip abroad to US\$500, effective from June 1, 1997. Parliament also approved a new law on the EPT on September 30, 1997, consolidating the group of assets on which depreciation provisions are applied from several hundred to only four, with straight-line depreciation on all assets. At the same time, discretionary privileges relating to accelerated depreciation provisions for tax purposes have been withdrawn, while tax holiday provisions for new firms have been restricted to firms with foreign equity participation of US\$1 million or more.

---

<sup>9</sup>Prior to July 1, 1997, VAT was based on the origin principle for CIS countries and the destination principle for non-CIS countries.

## **Expenditures**

25. Total consolidated government expenditure fell from 26.3 percent of GDP in 1996 to 22.7 percent in the first nine months of 1997, while current expenditure fell by only 0.8 percentage points to 18.9 percent of GDP in the first three quarters of 1997. The share of wages, transfers and other goods and services (comprising mainly spending on defense and law and order) in total current expenditure increased from 79 percent in 1996 to 86 percent in the first nine months of 1997. Spending on health and education fell by from 7.5 percent of total current expenditures in 1996 to 6.7 percent in the first three quarters of 1997. This trend is expected to have been reversed in the latter part of 1997 as the government has reportedly complied with the commitment under a World Bank loan to allocate a growing share of current expenditure to these sectors in the second half of 1997 and as part of the 1998 budget.

26. The budgetary sector wage bill rose marginally from 2.9 percent of GDP in 1996 to 3.1 percent in the first three months of 1997, reflecting an increase in basic budgetary wage of 20 percent in the first quarter of 1997. However, average budgetary wages increased by more, because budgetary sector employment continued to decline by 65.7 thousand employees during the first nine months of 1997, almost 20 percent of the end-1996 level of employment. This became possible as hospitals began to provide services on a fee-for-service basis following their redesignation as state-owned enterprises independent of the budget.

27. Capital expenditure declined from 4.1 percent of GDP in 1996 to 3.3 percent in the first three quarters of 1997. This decline primarily reflected a fall in foreign financed capital spending,<sup>10</sup> and a slowdown in the execution of domestically financed investment projects. The limited resources available to the budget in 1997 have resulted in the postponement of several major infrastructure projects.

### **C. Social Safety Net**

28. Spending on the social safety net has increased steadily from 3.0 percent of GDP in 1995 to 3.8 percent of GDP in the first three quarters of 1997. During this period, over 90 percent of social safety net expenditures were on pensions (Statistical Appendix Tables 17-18). The authorities have taken several measures to improve the targeting of social benefits so as to ensure that the most vulnerable groups are protected. In the first half of 1997, the PEF scrutinized the list of pension recipients, eliminating ineligible persons from it, and took decisive steps to improve the collection rate of pension contributions. As a result, arrears to the PEF were reduced during the first half of 1997, and the number of pension recipients

---

<sup>10</sup>Major externally-financed capital projects include a project financed by Russia for repairs to the nuclear power station and upgrading its safety, and World Bank-financed road and other infrastructure projects.

fell from 615,000 in June 1996 to 595,000 in June 1997 (Statistical Appendix Table 19). Average monthly pensions have increased in real terms by around 14 percent during the year ending in September 1997.

29. As of September 1997, over 25,000 Armenians were receiving unemployment benefits (the second component of the social safety net), reflecting a fall in the number of officially unemployed actually claiming benefits from the level in 1996 (Statistical Appendix Table 20).<sup>11</sup> This decline reflected the provisions of the 1996 law on unemployment benefits, which restricted eligibility for unemployment benefits, for example by excluding new entrants to the labor force.

30. The targeting of child and family allowances, which constitute the third component of the social safety net, improved significantly during the past three years. Of particular importance was the reduction in the age limit for eligibility for child allowances from 16 to 6 years from January 1996. Generalized support to the population also continues to be provided through cash payments, which increased as a percentage of GDP in the first three quarters of 1997. However, this reflected improved targeting of benefits to vulnerable groups, as the cash payments represented only partial compensation for the elimination of the open-ended 50 percent exemption on electricity tariffs to privileged groups. This exemption had been a very inefficient and costly instrument for supporting the needy and was partly to blame for the serious financial condition of energy sector enterprises (see Appendix I and Box 2).

#### **D. Tax Administration and Expenditure Control**

31. The authorities have taken several steps in recent years to improve tax administration. The Tax Inspectorate has established a modern tax administration structure and every local tax office has been computerized. In addition, all active taxpayers have been given taxpayer identification numbers. In order to address the issue of tax arrears, an official tax arrears payment scheme (TAPS) was instituted in 1997. This scheme envisaged that participating enterprises would clear the principal on their tax arrears as of end-December 1996 according to a fixed schedule during 1997. Those enterprises that paid off the scheduled amount of arrears would be exempted from the penalty rate on tax arrears which was fixed at 0.25 percent per day.<sup>12</sup> In the event, the TAPS did not achieve its objectives, as only 1,132 enterprises with tax arrears amounting to dram 4,296 million (excluding penalties) as of end-1996 signed contracts to participate in the scheme. The total amount of tax arrears collected during the first three quarters of 1997 was only dram 485 million, and the penalties

---

<sup>11</sup>The average level of unemployment benefits was around dram 2400 per month; over two-thirds of officially unemployed at end-September were women.

<sup>12</sup>Starting from July 1, 1997, the new "General Tax Law" changed the penalty system for tax arrears, imposing a fine of 0.1 percent per day on tax arrears less than 90 days old, rising steeply to 0.3 percent per day thereafter.

written-off amount to drams 2,906 million. In fact, the stock of tax arrears excluding penalties rose during 1997 from dram 13.2 billion at the beginning of the year to dram 17.3 billion at end-September 1997.

32. The ministry of finance and economy made significant progress in the control and monitoring of public expenditures in 1997, taking a number of important institutional measures, including completing the centralization of government transactions in a single treasury account at the CBA. Significant progress was also made in making the central treasury operational. However, it was not able to avoid the accumulation of expenditure arrears, and despite intensive technical assistance,<sup>13</sup> overall progress toward functioning field treasuries was slower than expected, primarily due to delays in the process of computerization.

33. Following the elimination of directed credits from January 1995, the government did not engage in large-scale quasi-fiscal operations. During the first three quarters of 1997, however, the government extended guarantees worth about dram 6 billion on domestic bank lending to selected state enterprises, primarily in the energy sector, as part of efforts at financially rehabilitating this sector.

#### **IV. MONETARY AND EXCHANGE RATE POLICY DEVELOPMENTS**

##### **A. Overview and Background**

34. The tight monetary policy that was pursued from end-1994 through the first half of 1996, aided by the sharp fiscal contraction described above, played a critical role in eliminating the hyperinflation of the preceding two years. In the second half of 1996, however, monetary aggregates grew substantially, in part reflecting the accommodation of a surge in government borrowing related to the September 1996 elections. This monetary expansion was initially met by the CBA with sizable net sales in the foreign exchange market, while keeping the nominal exchange rate stable. When the level of official intervention proved unsustainable in October 1996, the CBA withdrew from the foreign exchange market, and the exchange rate was allowed to reflect the prevailing market pressures. This period of float permitted some recovery in the level of official international reserves.

35. During the first two quarters of 1997, credit expansion by the CBA resumed, although at a slower pace than in 1996. However, this degree of credit restraint was not enough to prevent a surge in prices and the pressures on the foreign exchange market reemerged. In response, the CBA intervened in the foreign exchange market again, albeit

---

<sup>13</sup>An IMF resident treasury advisor was assigned to Armenia from September 1995 until January 1997. In addition, technical assistance from the U.S. Treasury focussed on establishing a legal framework for public expenditure management.

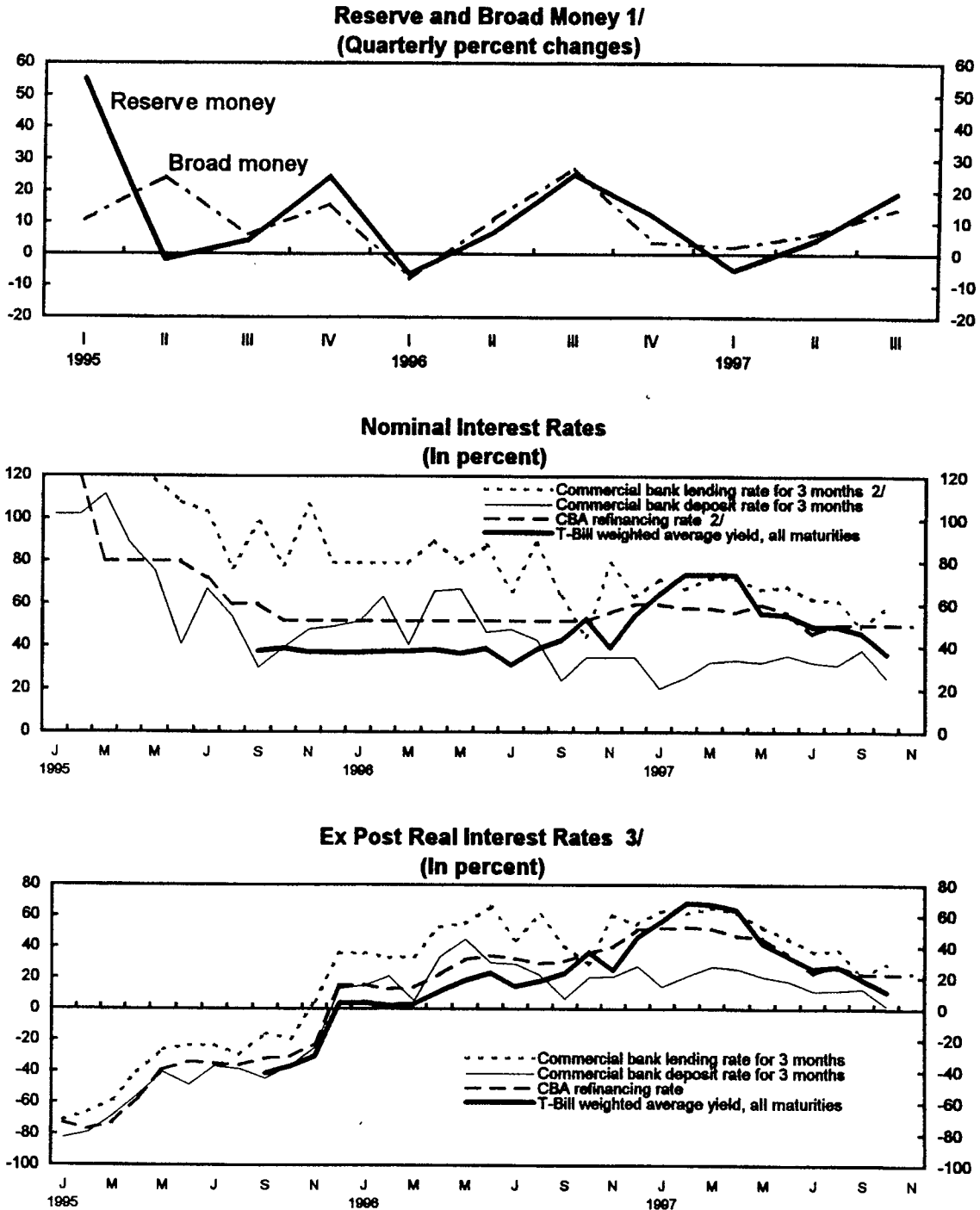
more moderately than before, and as a result there was a further depreciation of the exchange rate. It was not until the third quarter of 1997 that the CBA's efforts at restraining credit growth earlier in the year, coupled with the large cumulative depreciation since October 1996, started to change market expectations. Large official inflows of capital together with the emergence of private capital inflows, partly attracted by high yields on treasury bills, changed the sources of monetary growth from domestic credit creation to international official reserve accumulation. In an attempt to avoid large movements in the exchange rate (this time in the opposite direction than earlier in the year), the CBA reduced net credit to banks through the auction of sizable amounts of deposits among banks. However, the capital inflows could not be fully sterilized given the limited instruments available to the CBA. In addition, the government, by guaranteeing bank lending to selected enterprises effectively, limited the ability of the CBA to contract bank credit further without imposing a severe crowding-out on those enterprises which were not granted guarantees. As a result, inflation continued to rise, albeit at a decelerating pace. As macroeconomic imbalances worked their way through the system and expectations adjusted, the average yield on treasury bills, an increasingly reliable indicator of monetary conditions, reached record highs of almost 75 percent in early 1997, before declining to more moderate levels later in the year. The health of the banking system has continued to improve, especially in the last two years as the CBA has successfully implemented a comprehensive bank restructuring plan.

### **B. Monetary and Credit Aggregates**

36. In the last three years, the rate of growth of reserve money has come down markedly from high three-digit levels in 1994, to a 35-40 annual percentage increase range in 1996, and down further in the first three quarters of 1997 (Tables 1 and 4). As a result, both the rate of growth of dram broad money (M2) and broad money including foreign exchange deposits (M2X) have also declined (Tables 1 and 5). The evolution of reserve money growth has been quite erratic and clearly associated with prolonged episodes of government borrowing, which has affected the expansion of the net domestic assets of the CBA (NDA) at the expense of net international reserves (NIR). These large borrowings were then followed by sizable repayments facilitated by the large disbursements of official external financing, which allowed for the replenishment of NIR (Figure 7). During the first three quarters of 1997, reserve money grew by 18.5 percent compared with 25.3 percent a year earlier. As a result, credit from the banking system to the nongovernment sector, and, ultimately, M2 and M2X continued rising at a fast pace. The sources of monetary growth also changed during 1997. Reserve and broad money growth during the first seven months of the year mainly reflected large increases in domestic credit which the authorities tried to offset through net sales of foreign exchange, which on average amounted to US\$3 million per month. However, in August and September 1997, the growth of monetary aggregates was fueled by a large accumulation of international official reserves led by rising private capital inflows and official borrowing (including a drawing of US\$40 million from the World Bank), which could not be



**Figure 7. Armenia: Selected Monetary Indicators**



Sources: Armenian authorities; and Fund staff estimates.

1/ Based on stocks at the end quarters.

2/ Data for the CBA refinancing rate in January, February, March, and April 1995 were 210, 120, 80, and 80, respectively; data for commercial banks' lending rate in same months were 223.2, 223.2, 180, and 151.2, respectively.

3/ Based on 12-month change in CPI.

sterilized with the existing instruments,<sup>14</sup> and because the government guaranteed bank lending to selected enterprises, making the crowding-out effect of sterilization on enterprises without such guarantees more acute. The share of credit to industry, agriculture and construction in total banking system credit to the nongovernment sector declined during the first nine months of 1997 (Statistical Appendix Table 21).

### C. Exchange and Interest Rates Developments

37. Despite the shifts in the sources of unanticipated money growth, the nominal exchange rate only changed moderately, particularly in the third quarter of 1997. Following a long period of stability between 1995 and late 1996 when the official exchange rate fluctuated within a 2½ percent margin around dram 405 per U.S. dollar, the nominal exchange rate depreciated to dram 440 per U.S. dollar in the second half of 1996, and by a further 14 percent in the first seven months of 1997 to stabilize at around dram 500 per U.S. dollar throughout the second half of 1997. In real effective terms, following an appreciation of the exchange rate in 1995 of 7 percent, it depreciated by 14 percent during 1996, mainly on account of the brief floating period at the end of the year. During the first nine months of 1997, however, the real effective exchange rate appreciated by 2.3 percent, as the cumulative nominal depreciation since October 1996 through June 1997 was eroded by rising inflation in the first nine months of the year.

38. Banks' interest rates on one-month deposits and loans exhibited a downward trend through December 1996 closely in line with inflation developments during the year. Interest rates on one-month loans (simple interest) averaged around 70 percent per annum during 1996 while one-month deposit rates were around 40 percent per annum (Statistical Appendix Table 22). During the first five months of 1997, both deposit and loan rates rose reflecting in part the contractionary impact of the sharp depreciation of the exchange rate and the tightening of credit by the CBA. It was only in the third quarter that the structure of interest rates started declining mainly reflecting rising capital inflows and some break in the inflationary expectations. The margin between the lending and deposit rates remained large reflecting the high risk premium banks attach to nongovernment borrowers and the lack of a developed interbank market, which led banks to maintain high excess reserves with the CBA despite a low legal reserve requirement.

39. The average yield on the 28-day treasury bills fluctuated around 38 percent during the last quarter of 1995 and 36 percent and 40 percent during the first six months of 1996.<sup>15</sup> As already mentioned, the expansionary monetary and fiscal stance during the third quarter of

---

<sup>14</sup> During this period the CBA auctioned deposits amounting to over dram 2 billion, or about 25 percent of the total increase in reserve money in the third quarter of 1997.

<sup>15</sup> This yield is the average on the various maturity treasury bills calculated on a simple annual basis, and is tax-free.

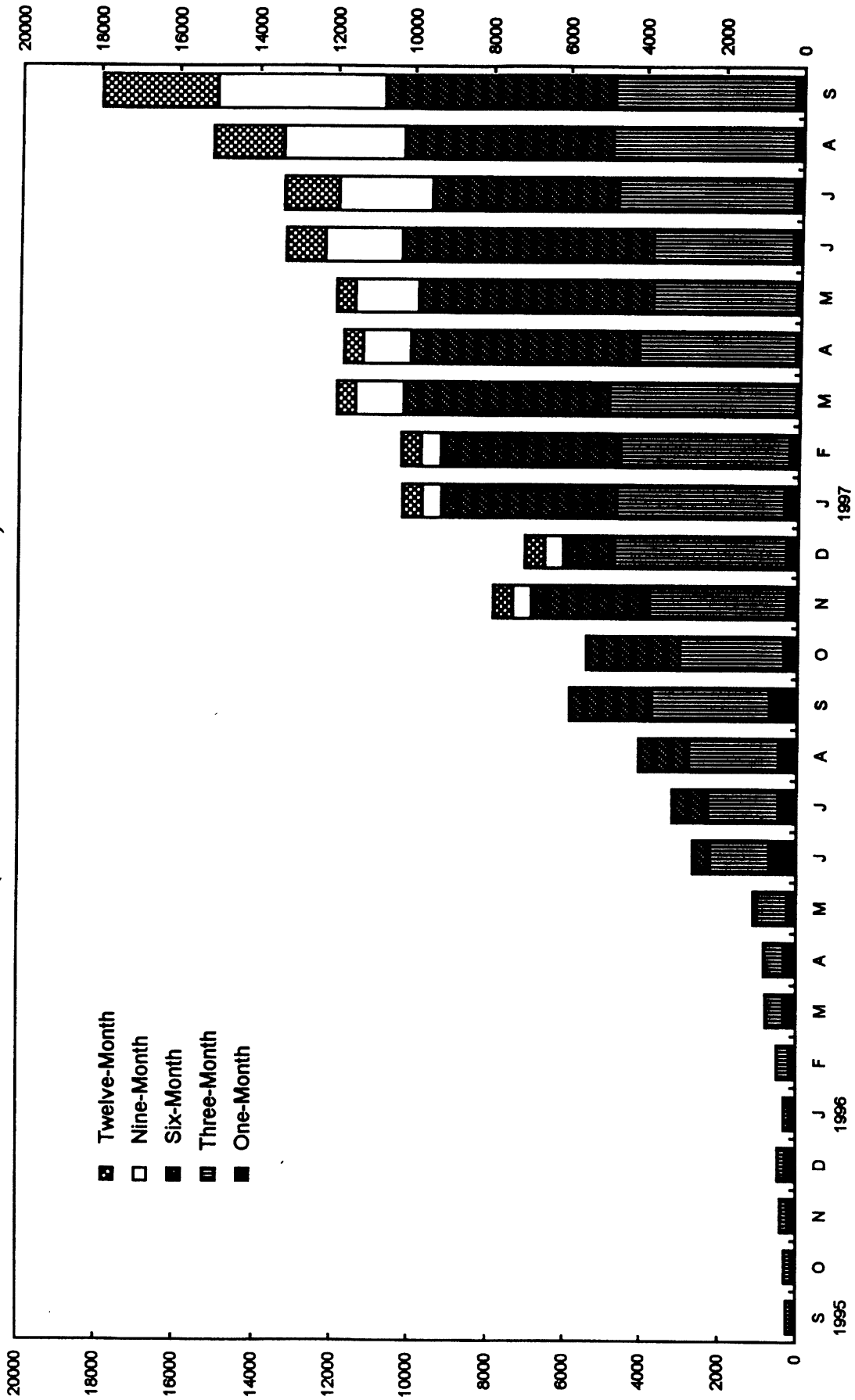
1996 contributed to the increase in average treasury bill yields, which peaked at an average of 74 percent during February-April before declining steadily to around 40 percent by the end of the third quarter. This implied an ex post real interest level peaking at 68 percent in February, with a sharp subsequent drop to around 15 percent by the end of the third quarter (Figure 8).

40. Between January and October 1995, the CBA refinance rate fell from a high of 210 percent to 52 percent and it remained in the 50-60 percent range through September 1997. The refinance rate is used to calculate interest charges on net credit to government from the CBA, and serves as the basis for calculating charges for bank overdrafts, as well as the penalty for banks that have breached the reserve requirement over a two-week reporting period.

#### **D. Monetary Policy Instruments**

41. The CBA has used credit auctions since 1995 to inject liquidity into the banking system. In the second half of 1995, the volumes auctioned reached an average of dram 1 billion, or about 5 percent of the annual average stock of reserve money. Initially, credit auctions were not collateralized, but effective January 1, 1996 all successful bids had to be collateralized. In line with the tightening of monetary policy, the use of credit auctions became sporadic and the CBA started managing the changes in the liquidity needs of the banking system relying on repurchase agreements, and by auctioning the right for banks to place remunerated short-term deposits with the CBA. The use of indirect investments of monetary control has been facilitated by the deepening of the primary market for treasury bills (see Box 1). However, further development of these instruments has been impaired by the still nascent secondary market for treasury bills and by the lack of depth of the interbank market.

**Figure 8. Armenia: Outstanding Stock of Treasury Bills by Maturity**  
(In millions of dram at face value)



Sources: Armenian authorities; and Fund staff estimates.

### **Box 1. Treasury bills and Open-Market Operations**

The treasury bill market started operations in September 1995, beginning with the auction of one-month treasury bills. By May 1996, the government began offering 3 and 6-month treasury bills, and the maturity range was subsequently expanded to cover 9 and 12-month paper in early 1997. The face value of the total outstanding stock of treasury bills reached about dram 10 billion by end-1996, or 1.5 percent of GDP, and rose to dram 17 billion by end-September 1997 (3 percent of the corresponding GDP), with the share of longer maturities increasing steadily (Figure 8). As the treasury bill market widened, it attracted an increasing number of nonresidents, with the dual effect of substantially lowering the average yield on treasury bills since April 1997, and raising the share of treasury bills held by nonresidents to over half of the total by September 1997.

In contrast with the developments in the primary market for treasury bills, the secondary market is only beginning to emerge. Several factors have been identified as a hindrance to the development of this market, including: the small size of the primary market, the short average maturity of treasury bills outstanding, and the excessively high commissions demanded by the stock exchange for transacting in treasury bills. However, one of the most important reasons has been the discriminatory tax treatment extended to secondary transactions which have been subject to taxes, whereas those from primary transactions were not, provided they were held to maturity. This distinction was eliminated from January, 1, 1998.

Treasury bills have been used primarily as a source of non-inflationary financing to the budget. The CBA has only conducted very limited open-market operations using treasury bills, mainly in the form of repurchase agreements and reverse repos. In July 1997, the CBA and the government reached an agreement aimed at providing the CBA with treasury bills of different maturities to be used in improving liquidity management. The effectiveness of this operations, however, was limited as the government ultimately received and spent the proceeds of these placements without materially affecting the overall liquidity in the system.

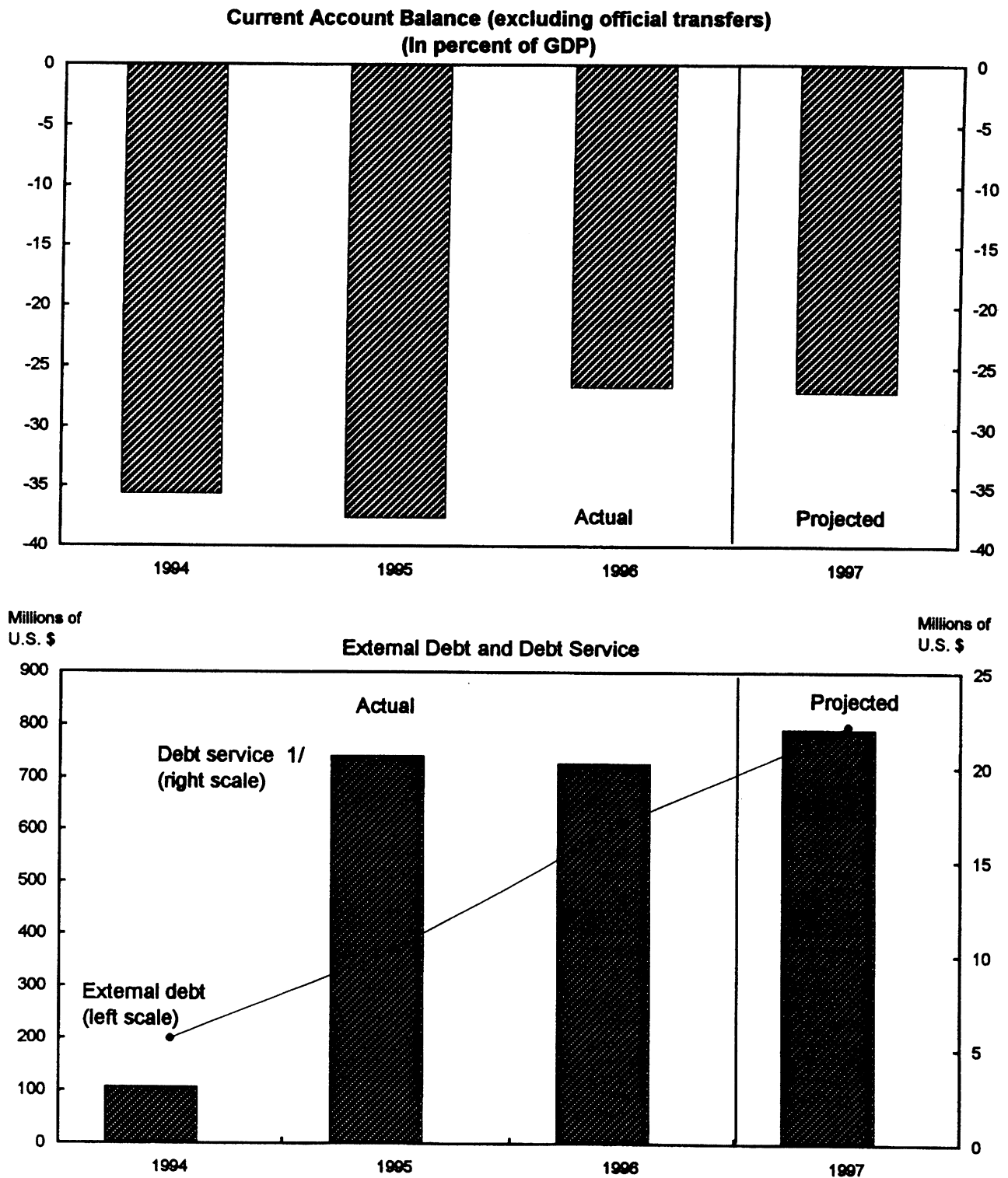
42. The CBA has also modified the legal reserve requirements. The uniform reserve requirement of 15 percent adopted in April 1994 was replaced by a differential rate of required reserves on different types of accounts in May 1996. This change led to an initial lowering of the effective reserve requirement by about 3 percentage points, and a continued downward drift thereafter. From August 1997, the reserve requirement was reunified at 8 percent, representing a marginal increase in the effective average reserve requirement at that time.

## **V. EXTERNAL SECTOR DEVELOPMENTS**

### **A. Overview and Background**

43. Armenia's external current account deficit (excluding official transfers) which had been declining steadily from about 36 percent of GDP in 1994 to below 27 percent in 1996, rose slightly to about 28 percent in the first three quarters of 1997 (Figure 9). While the past improvement was due mainly to a slow growth of imports (associated with declining flows of

**Figure 9. Armenia: Current Account Balance, Debt and Debt Service**



Sources: Armenian authorities; and Fund staff estimates.

1/ On an accrual basis, including debt service arising from potential financing associated with the cumulative financing gap, and scheduled debt service payments to the EU.

humanitarian assistance), a strengthening of the services account, and a rise in private transfers, the widening of the trade deficit in the first nine months of 1997 reflected a surge in the growth of imports (particularly shuttle trade) and a sharp contraction of exports. The deterioration in the trade balance was only partially offset by continuing improvements in the services balance and private transfers. Throughout these years, there have been significant changes in the direction of trade in favor of non-CIS countries. These changes have been facilitated by the decoupling of exports from imports following the termination of bilateral barter and clearing agreements. Official transfers have continued to decline with a shift away from humanitarian assistance as hostilities in the region have abated. In the capital account, Armenia has continued to receive large inflows from multilateral and bilateral creditors to finance the ongoing reconstruction of the infrastructure and support macroeconomic stabilization and structural reforms. The country's external debt and debt-service obligations have continued to increase, reflecting these factors and Armenia's access to commercial credits from late 1996. Armenia's international official reserve position has strengthened considerably in the last few years. Gross official reserves rose from US\$32 million at end-1994 (equivalent to 0.7 months of imports of goods and nonfactor services) to US\$224 million by end-September 1997 (equivalent to three months of imports). Net international reserves, which were only just US\$8 million at end-1994, reached US\$90 million at end-September 1997.

### **B. Merchandise Trade**

44. In the period 1994-96, Armenia's trade deficit remained roughly constant at about 30 percent of GDP, even though both exports and imports declined by almost 14 percentage points of GDP to about 18 percent and 48 percent of GDP respectively in 1996 (Table 6). During the first nine months of 1997, the share of exports in GDP continued to decline to about 15 percent, whereas that of imports rose slightly to 49 percent. The decline in exports was driven by a sharp contraction in the jewelry trade, the bulk of which is in diamonds, and as a result the share of jewelry in total exports declined to an estimated 23 percent in 1997, from over one-third in earlier years.<sup>16</sup> In February 1997, the diamond polishing enterprise, Shugakan, lost its supply contract with De Beers, the world's largest diamond corporation,

---

<sup>16</sup>Armenia also has a gold manufacturing enterprise, the Yerevan Jewelry Factory, which imports gold and exports finished jewelry.

following a dispute over the processing and marketing of diamonds obtained elsewhere.<sup>17</sup> As a result, both imports and exports of diamonds in the first three quarters of 1997 fell to one third of levels reached in 1996.<sup>18</sup> Other non-jewelry exports increased by 11 percent during the first nine months of 1997.

45. Among Armenia's other main exports are nonprecious metals and machinery, which together accounted for over 40 percent of total exports in 1997 compared to 30 percent in 1996. This category includes obsolete machinery sold as scrap metal mainly to the Islamic Republic of Iran. The availability of such machinery is the result of the on-going process of privatization, enterprise restructuring and investment, and the level of such exports will therefore decline over time as the process of modernizing the country's capital stock reaches normal levels. On the import side, the main categories are food products (including humanitarian aid), mineral products (including energy), industrial and consumer goods. Imports of the latter have increased significantly, reflecting the growth of the services sector, and also boosted by the rapidly expanding shuttle trade (Statistical Appendix Table 23 and Figure 10).

46. Russia has continued to be Armenia's largest trading partner in terms of its share in both exports and imports. However, the share of Armenia's exports to Russia has declined from 44 percent in 1994 to under 30 percent in the first three quarters of 1997 (Statistical Appendix Table 24). These exports consist mainly of food products, textiles, chemicals, industrial components and nonprecious metals. The main imports from Russia are machinery and equipment, oil products, nuclear fuel, livestock, precious, semiprecious, and nonprecious metals. As a source of imports, Russia's share declined from 28 percent in 1994 to an average of 15 percent in the first three quarters of 1997.

47. Turkmenistan's importance as a trading partner has declined markedly since 1994. The share of exports to Turkmenistan fell sharply from about 21 percent in 1994 to under 2 percent in the first three quarters of 1997, while the share of imports from Turkmenistan declined from 17 percent to under 12 percent in the same period. Imports from Turkmenistan, which consist mainly of natural gas, were suspended in the second quarter of 1997. Since January 1996, when the bilateral clearing trade agreement was dismantled, gas imports from Turkmenistan have been arranged exclusively between commercial enterprises, with Armgazprom being the enterprise responsible for importing gas on the Armenian side. About 80 percent of imported gas was delivered to Armenergo to generate electricity, while the remainder went to chemical plants, hospitals, and other enterprises. Part of the payment for

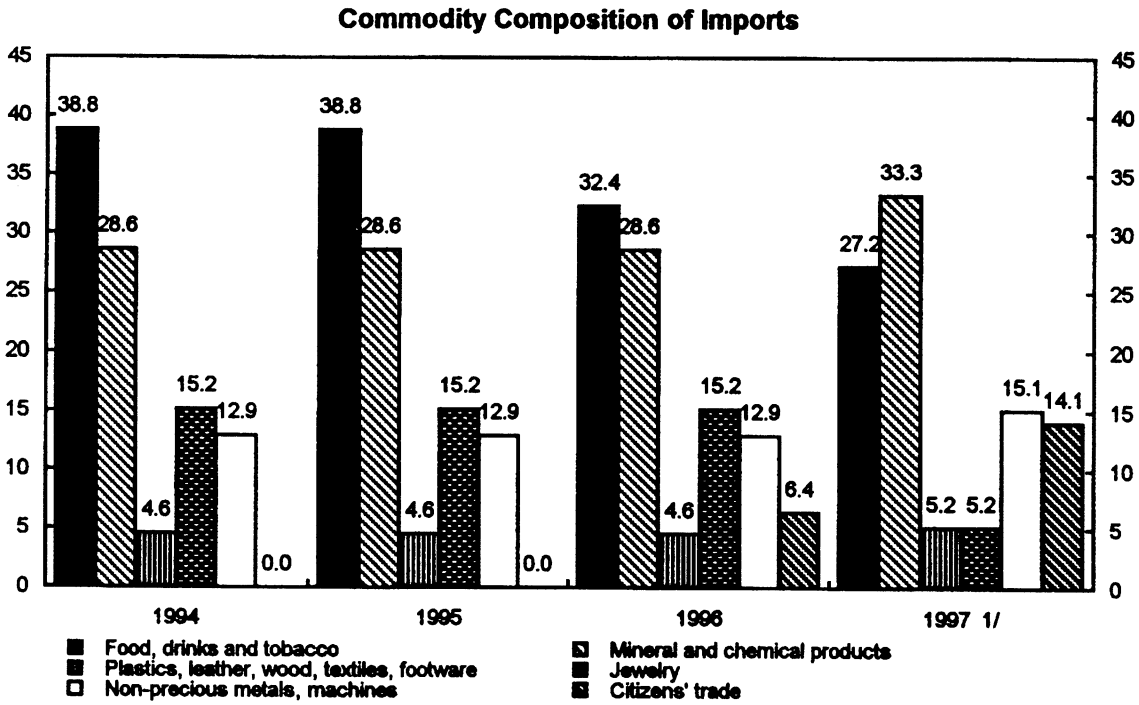
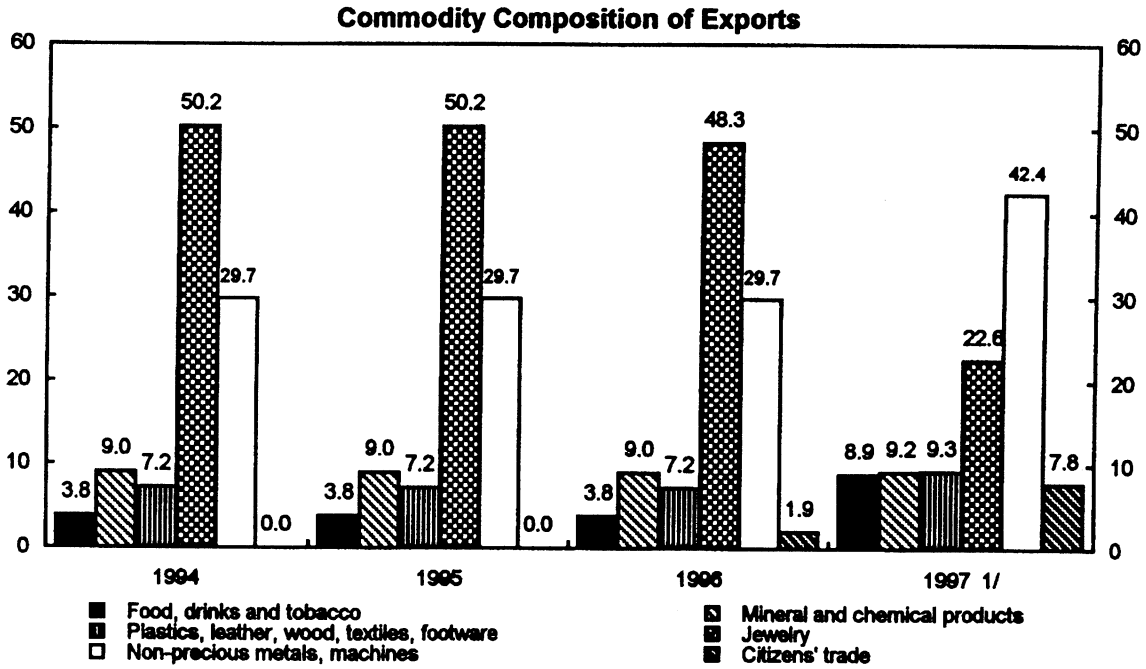
---

<sup>17</sup>In 1996, the Armenian diamond enterprise obtained a large contract from De Beers that gave it access to international markets. In earlier years, this industry operated largely within the markets of the CIS, with some exports to Southeast Asia.

<sup>18</sup>The value added in the diamond polishing industry is estimated at about 10 percent.



**Figure 10. Armenia: Commodity Composition of Exports and Imports**  
(In percent of total)



Sources: Armenian authorities; and Fund staff estimates.

1/ Based on data on the first three quarters.

gas has been done in the form of barter trade, and it has been handled by a specialized enterprise, Armturtrade.

48. Exports to Belgium (mostly diamonds) and to the Islamic Republic of Iran (mostly minerals and nonprecious metals) have increased significantly since 1994 and these countries accounted for 20 percent and 18 percent of total exports in 1997, respectively. Trade with the United States, France and Germany has also increased.

### **C. Services and Transfers**

49. The deficit on net nonfactor services has continued to decline from US\$90 million in 1995 to US\$66 million in 1996 and is estimated at US\$40 million for the first three quarters of the year. This trend largely reflects declining transport costs due in part to an increase in the use of domestic means of transportation to carry exports, increases in income from telecommunications, and higher receipts from tourism. There is little official information on private transfers and workers' remittances, but available information suggests that the Armenian diaspora has been an important source of foreign exchange flows into the economy. Private transfers are estimated to have risen from US\$36 million in 1994 to US\$74 million in 1996 and to an estimated US\$120 million in 1997. A similar trend is evident in workers' remittances, which form the bulk of income from other factor services, reflecting the large number of Armenian nationals working abroad on a temporary basis.

50. Armenia has continued to receive substantial financial support from official donors, although this has been declining since 1994 when humanitarian and technical assistance reached about US\$237 million. In 1996 the country received about US\$180 million and in 1997 this figure fell to US\$154 million. At the same time, the composition has shifted away from humanitarian assistance (food, fuel and medicines) toward other forms of assistance to both the public and private sectors. The United States continued to be the largest donor, followed by the EU.

### **D. Capital Account**

51. Debt-creating flows, particularly from official sources, have dominated Armenia's capital account developments in the last three years. Following the ceasefire agreement in mid-1994, disbursements from multilateral creditors rose significantly from about US\$42 million in 1994 to US\$151 million in 1996 (Table 6). In 1997 disbursements from these sources are estimated at about US\$126 million on account of lower disbursements from the Fund and the World Bank. The latter has been financing a number of projects to rebuild the country's infrastructure and improve social services as well as policy-based structural adjustment financing and technical assistance on concessional terms. Disbursements from Russian loans, which amounted to US\$10 million in 1995, are estimated to have reached US\$34 million in 1997, predominantly related to imports of nuclear fuel and technical services for the Metzamor nuclear power plant. The United States provided Armenia with two soft loans for the purchase of wheat amounting to US\$15 million both in 1996 and in 1997. In

addition, Armenian banks began borrowing from commercial sources from abroad in the third quarter of 1996. By the end of 1996, the CBA and the commercial banks—under CBA guarantees—had borrowed a total of US\$25 million to on lend to the energy sector. During the first three quarters of 1997, a further two loans amounting to US\$12 million were contracted and disbursed. At the same time, a total of US\$5 million from the earlier loans was repaid bringing the outstanding stock of such loans to US\$32 million by the end of September 1997. Finally, disbursements were made under a supplier's credit without official guarantees to Armentel, the telecommunications enterprise.

52. Private capital inflows in the form of direct foreign investment have not been significant so far, in part reflecting continued political uncertainties in the region, inadequate infrastructure, and poor transportation links. Nevertheless, these flows are expected to increase in connection with the sale of large enterprises through international tenders. So far, most foreign investors have been from Russia, the Islamic Republic of Iran and the United States. More than half of the enterprises with foreign participation are in trade, followed by industry, and transport and communications; noticeable foreign investment has occurred in the banking sector as well.

#### **E. External Debt**

53. Since the signing of the “zero option” agreement with Russia,<sup>19</sup> Armenia's overall indebtedness has risen rapidly from US\$200 million at end-1994 to an estimated US\$735 million by the end of September 1997 (Statistical Appendix Table 25). As a ratio to GDP, Armenia's total debt has increased from 31 percent in 1994 to 47 percent at end-September 1997, of which public and publicly-guaranteed debt accounted for 42 percent of GDP. As of end-September 1997, about 58 percent of the total stock of debt was owed to multilateral creditors, 28 percent to official bilateral creditors, and the remaining 14 percent to commercial creditors (banks and suppliers). The main multilateral creditors were the World Bank (55 percent of the debt to multilateral institutions), the IMF (about 31 percent) and the EBRD (about 13 percent). Russia and the EU continue to be the main bilateral creditors (with about 44 and 28 percent of the total bilateral debt, respectively), followed closely by Turkmenistan and the United States, with an average share of close to 10 percent each. The bulk of the debt to bilaterals is public or publicly-guaranteed, with the balance being debt owed mainly by the telecommunication enterprise, Armentel, to its suppliers without a government guarantee.

54. Since just over half of Armenia's public and publicly guaranteed debt is on highly concessional terms, its net present value (NPV) suggests a somewhat lower debt burden compared to the face value of the debt. By the end of 1997 the NPV of Armenia's public and publicly guaranteed debt is estimated to have reached 34.5 percent of GDP compared to

---

<sup>19</sup>The agreement relieved Armenia of any obligations for the former U.S.S.R.'s external debt in return for forgoing claims on its external assets.

25.6 percent at the end of 1996 and 18.4 percent at the end of 1995. The ratio of the stock of debt in NPV terms to exports of goods and nonfactor services is projected to rise to 167 percent in 1997 compared to 111 percent in 1996 and 77 percent in 1995.<sup>20</sup>

55. On March 19, 1996 Armenia signed an agreement rescheduling gas arrears owed to Turkmenistan. The stock of outstanding arrears was regularized, turning it into a government debt of US\$34 million at an interest rate of LIBOR plus 0.3 percent, to be repaid over a period of six years, and an additional US\$6 million of commercial debt to be paid by Armgazprom. In July 1997, debt-service payments due in the second half of 1997 were rescheduled thus providing additional debt relief of US\$3.6 million. On June 5, 1996, Armenia signed an agreement with Georgia, rescheduling the entire stock of debt owed by Georgia to Armenia amounting to US\$19.6 million. The terms of the agreement include a five-year grace period, ten-years maturity (as of end-1995), and interest at 4 percent accruing from January 1, 1996.

56. On June 30, 1997 a debt-restructuring agreement was concluded with Russia on loans contracted by Armenia in 1993 and 1994, with outstanding balances amounting to US\$73.7 million. The loans had been provided for nuclear fuel, imports and restructuring following the earthquake at interest rates ranging from zero to LIBOR plus one. The outstanding amount under these loans has been converted into a single new loan with a maturity of 10½ years, a grace period of 2½ years, and a fixed interest rate of 5 percent. Amortization payments are to be made in equal quarterly installments totaling US\$9 million per year during the period 2000-07. Interest will be paid on a quarterly basis from January 1, 1997 with any interest already paid prior to signing the agreement taken into account. The resulting debt relief on amortization payments amounts to US\$22.8 million per year during 1997-99.

57. Armenia has remained current on its obligations to multilateral and bilateral creditors. A memorandum of understanding on two overdue loans to the EU was reached in July 1996, which stipulates the initial terms for repayments of the outstanding debt to the EU of about ECU 57.6 million. Armenia agreed to make total payments of ECU 16 million in two equal instalments by end-December 1996 and end-March 1997, while the EU agreed to provide ECU 12 million in food security grants<sup>21</sup> plus ECU 1 million in technical assistance in two tranches. In the event, between December 1996 and December 1997, Armenia has paid to the EU a total of ECU 16 million, of which ECU 10 million in the form of principal repayment and the rest in the form of interest and penalties. The total outstanding stock of debt at end-1997 was ECU 47.5 million. The EU, on the other hand, released the ECU 12 million in

---

<sup>20</sup>The NPV for each year is calculated on the basis of loans contracted up to and including the given year.

<sup>21</sup>It was also agreed that the local counterpart of the food grants would be deposited in a special account at the CBA and would be used to finance spending on agriculture and health.

grants, the last tranche of which was disbursed before the end of 1997. Discussions on the settlement of the outstanding debt are on-going.

58. Overdue payments have also been accumulated to a commercial oil supplier, which contends that deliveries worth US\$12 million were made in mid-1996 under an agreement with the ministry of defense. While the government has disputed this claim, the supplier has resorted to legal action.

#### **F. Exchange and Trade System**

59. Access through banks to the three foreign exchange auction markets—the Yerevan Stock Exchange, the Gyumry Stock Exchange and the Adamand Stock Exchange—for the private sector and public entities is unrestricted. While these exchanges played a dominant role from 1994 through mid-1996, the emerging interbank foreign exchange market has gradually taken over as the most important venue for trading in foreign exchange.

60. Armenia maintains a liberal policy on foreign direct investment which is set out in the 1994 Law on Foreign Investments. Profits or assets may be repatriated without restrictions, and certain foreign investors continue to enjoy substantial tax benefits, although progress has been made toward a uniform tax treatment of all enterprises. For joint ventures with foreign capital of at least US\$1 million and foreign ownership of at least 30 percent, there is a profit tax holiday for the first two years, and a 30 percent enterprise profit tax exemption for the subsequent five years.

61. Armenia has pursued a liberal trade policy consisting of a simple and relatively open import regime with a low uniform tariff; avoidance of quantitative restrictions on imports or exports; and the dismantling of barter and clearing trade with countries of the former Soviet Union. Armenia is well advanced in the process of joining the WTO. As a result of progress in resolving technical issues during bilateral meetings in 1997, a multilateral working group was convened on December 17, 1997 to discuss the report on Armenia. Further bilateral meetings are scheduled to be held in early 1998 to discuss outstanding issues related mainly to the EU.

62. In May 1996, the five-band tariff structure with rates of zero, 5, 10, 30 and 50 percent, which had been effective since January 1995, was replaced by a regime with two bands at zero and 10 percent, respectively. The zero-rated products are limited to staple foods, agricultural products, fuel, essential pharmaceutical products, basic clothing, and raw materials used intensively in the production of exports. Tariff exemptions are currently extended to all goods that originate from Russia, Turkmenistan, Georgia and the Ukraine under the terms of free trade agreements. Goods associated with humanitarian aid, medical equipment, meat, agricultural and dairy products, sugar, crude oil derivatives and selected industrial raw materials are also exempt from import tariffs.

63. Nontariff restrictions remain in place against the importation of weapons, nuclear materials, illegal drugs and other goods that pose health, security, or environmental hazards. Import licensing requirements are limited to medicines, which are subject to approval by the ministry of health, and agricultural chemicals, which are administered by the ministry of agriculture. A customs fee of 0.3 percent on the declared value of exports and imports was capped at dram 600,000 effective October 1997. There are no quantitative restrictions on exports except on certain artwork and jewelry; these are expected to be eliminated in order to comply with WTO regulations. Export licenses are required for textiles destined for the EU (in accordance with an agreement with the EU), and also for medicines, selected live animals and plants for reasons of public health. There are no export subsidies.

## VI. STRUCTURAL AND LEGAL REFORMS

### A. Privatization

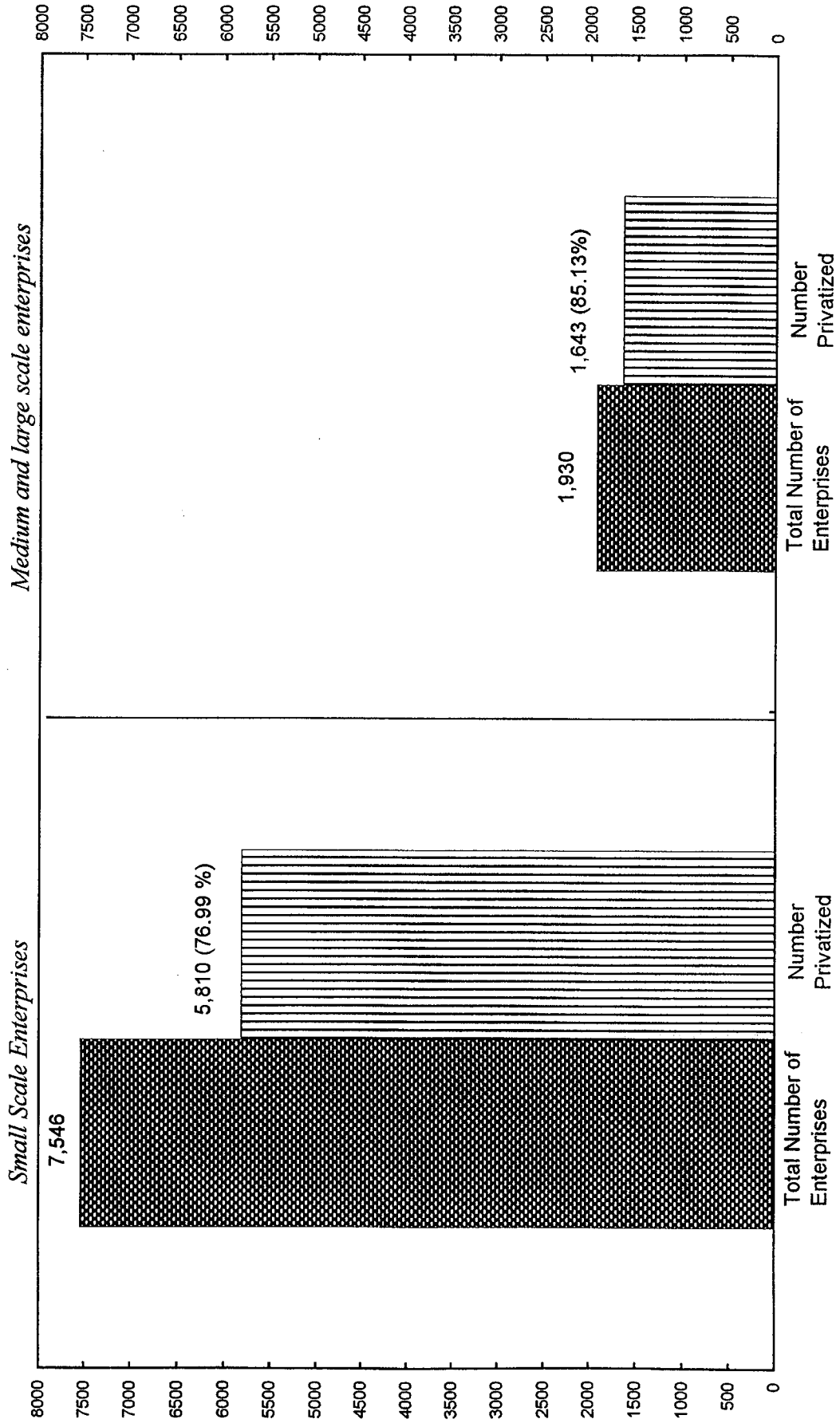
64. Unlike the privatization of land, the privatization of enterprises<sup>22</sup> moved relatively slowly in 1994 and 1995 (Statistical Appendix Table 26). It was only in 1996 that the government started making significant progress, particularly with small enterprises. At the beginning of the small enterprise privatization program, the government put out for sale an estimated 5,000 enterprises. Subsequently this number increased to over 7,000 enterprises due to the breaking up of larger enterprises into small units. Most of the privatization of these small enterprises has taken place through vouchers. The market value of vouchers fluctuated widely throughout this period, dropping below half of face value at times, providing a strong incentive to use them instead of cash. In mid-1997, the minimum price for the purchase of an enterprise through the voucher auctions was increased to 50 percent of the appraised value but it reduced significantly the sales. Subsequently in November, this threshold was lowered to 25 percent and there was a surge in sales. By November 1997, some 5,810 small enterprises had been sold, 408 had been offered but failed to sell, and about 700 were in the process of being sold (Figure 11).

65. Privatization of medium and large-scale enterprises has become increasingly complex as the government has begun the process of selling the largest enterprises. By November 1997 some 1,640 enterprises, mainly medium-scale ones, had been offered for sale or were in the process of being sold. In October 1997, the government launched international tenders for large enterprises—in the energy and transport sectors, and also including selected hotels—to be sold to strategic investors. To date, one major enterprise has been sold (see Appendix I), and negotiations on four more are at an advanced stage. As part of the 1997-98 privatization program submitted to parliament in late 1997, the government intends to complete the privatization of the remaining medium and large enterprises. The government has also decided not to issue new vouchers and began phasing in cash privatization, which resulted in a steady convergence of the vouchers' market price toward face value by late 1997.

---

<sup>22</sup>Privatization is defined as having a signed sales agreement.

**Figure 11. Armenia: Privatization of Small-scale and Medium-scale Enterprises**  
(As of end-November 1997)



Sources: Armenian authorities; and Fund staff estimates.

## **B. Banking and Payments System**

66. As of end-September 1997, Armenia's two-tier banking system consisted of the CBA and 29 commercial banks: Armimpexbank, Ardshinbank, Armagrobank and Armeconombank (four major commercial banks which had been specialized banks during the Soviet era); the Savings Bank, which continues to hold the majority of household deposits;<sup>23</sup> about 20 small banks, mostly owned by nationals; and several foreign owned banks, which together account for about 38 percent of the total capital in the system. The commercial banking sector in Armenia was characterized by large volumes of nonperforming loans throughout 1994-96 (Statistical Appendix Table 27). However, since mid-1995, the CBA has tightened the enforcement of prudential regulations. Particular emphasis was placed on: (i) classification of impaired assets and the build-up of sufficient loan loss reserves (aided by the March 1996 change in the tax code which exempted set-asides for loan losses from the profit tax); and (ii) minimum capital and reserve requirements. In addition, bank licensing procedures for new banks and the "fit and proper" criteria for prospective new shareholders with significant shareholding interest were made more stringent.

67. The CBA strengthened both its off-site and on-site supervision divisions, and based on extensive technical assistance it finished a first-ever audit according to IAS of every commercial bank by summer 1996. This process was also the vehicle for training on-site supervisors since they were paired up with experienced international auditors preparing the bank audits. In addition, the four major formerly state owned banks (Ardshin, EXIM, Agro, Econombank) were obliged to undergo individual audits by international accounting firms during 1996. Subsequently, the CBA prescribed specific measures for the three large problem banks. Also, it pursued the strict enforcement of a schedule for building up banks' provisioning against nonperforming loans according to internationally accepted best practice, including reaching the target of a 100 percent provisioning against bad loans by end-1997. The results achieved through end-September 1997, were quite favorable (Appendix II and Figure 12).

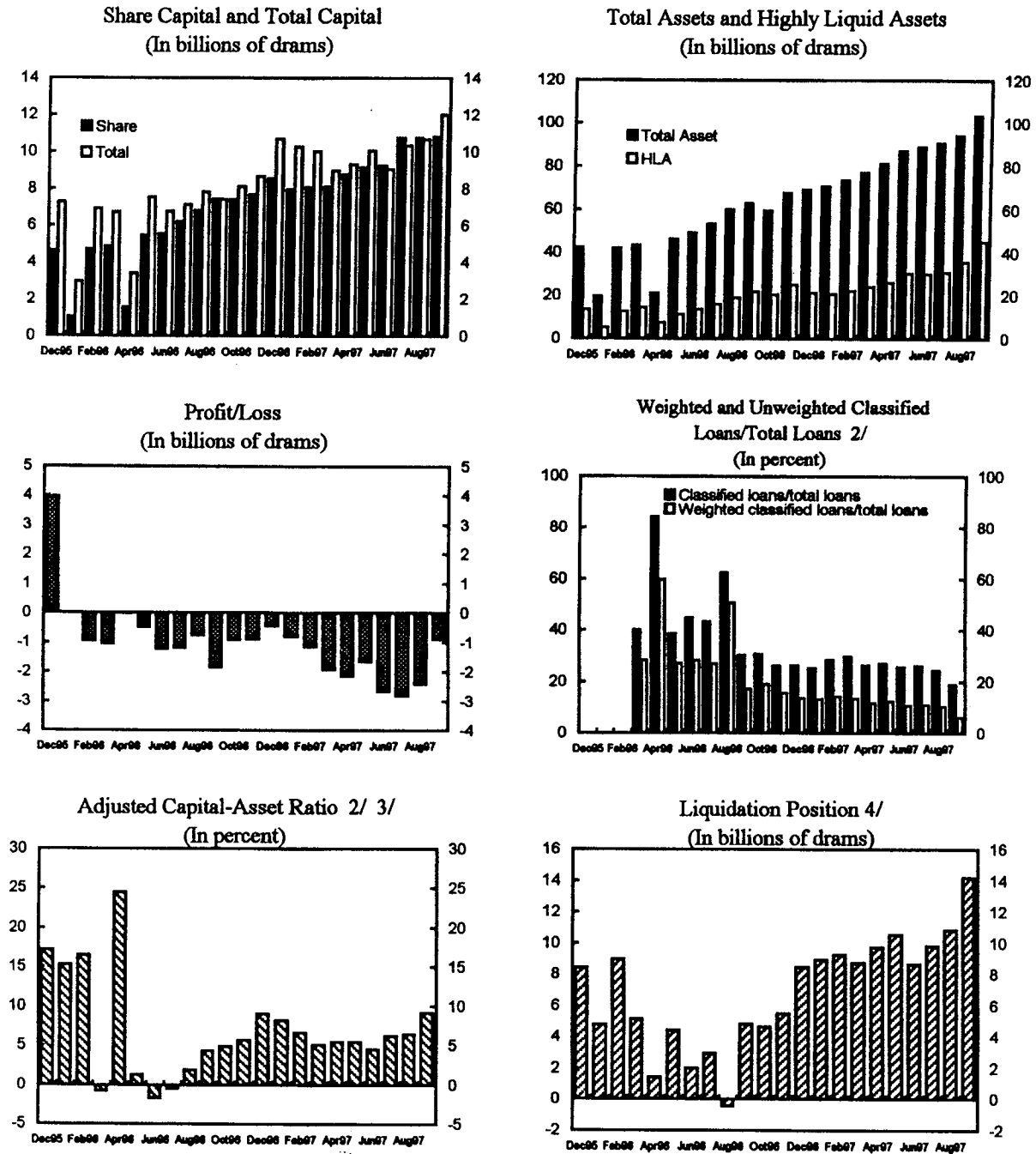
68. Payments in Armenia had been realized primarily through payment orders until 1996. Interbank clearing and settlement had been performed by the CBA through settlement accounts held by all banks at the CBA. However, in order to reduce transaction costs and delays, the CBA developed CBANET, an electronic payment system based on the SWIFT format, which has been fully functional in Yerevan since September 1996 and began to cover the entire country from February 1997. Most large banks already transact through this system, and practically all bank branches throughout Armenia will have established access by end-1997. The CBA and several major commercial banks also maintain access to international markets through the SWIFT system.

---

<sup>23</sup>At end-September it held household deposits of dram 1.5 billion, or about US\$3 million at current exchange rates.



Figure 12. Armenia: Progress in Banking Sector Restructuring, Dec. 1995-Sept. 1997 1/



Sources: Armenian authorities; and Fund staff estimates.

- 1/ Aggregate data covering all commercial banks; stocks refer to end of period.
- 2/ Classified loans are defined as substandard loans plus doubtful and loss loans. Weighted classified loans equal 0.2\*substandard loans plus 0.7\*doubtful loans, plus 1.0\*loss loans; data are incomplete prior to April 1996.
- 3/ Ratio of total capital minus weighted classified loans to total assets minus weighted classified loans.
- 4/ Liquidation position of a bank is defined as the value of assets net of all liabilities and prudentially appropriate provisions for all classified loans.

### **C. Energy Sector Financial Rehabilitation**

69. The energy sector has been plagued by serious problems in recent years. Losses in generation and distribution which amounted to about 20 percent of total production in 1996-97 reflected: (i) a lack of export markets, resulting in an underutilization of the system; (ii) disrepair or lack of adequate metering equipment; (iii) postponement of essential maintenance during previous years; and (iv) a lack of payments discipline. Moreover, the low tariffs, which did not cover cost of production, combined with a poor collection rate, have undermined the financial viability of this sector. To address some of these issues, in April 1997 a presidential decree established an independent Energy Regulatory Commission responsible for issuing licenses and approving tariffs. In addition, in June 1997 a new Energy Law was approved by parliament which establishes the overall regulatory framework for the sector. The law: (i) separates policy-making, commercial and regulatory bodies; (ii) creates independent generation, transmission and distribution enterprises; (iii) allows for private ownership; and (iv) mandates that all energy enterprises be licensed under the new regulatory framework.

70. Significant progress was made toward bringing electricity tariffs to full cost recovery levels when they were raised to dram 17.5/kWh as of January 1, 1997, following significant increases in 1996. However, arrears owed to the energy sector increased sharply during 1997, even as the average collection rate for electricity supplied to enterprises and households rose to 72 percent by mid-year. In addition, the energy sector has been unable to service its debts to external creditors as well as pay taxes. In order to regularize the financial status of the energy sector as a prior condition to privatizing the larger enterprises, the government has initiated a financial rehabilitation program, with the assistance of the World Bank (Box 2). As part of this program, average electricity tariffs were raised to dram 21/kWh as of September 1, 1997 (Statistical Appendix Table 28), and the exemptions given to the majority of Armenian citizens were eliminated and replaced with an income subsidy (see section III).

**Box 2. Main elements of the Financial Rehabilitation Program for the Energy Sector**

This program aims at restoring the financial viability of the sector by mid-1999 and consists of three main elements: (i) improving the rate of collection according to a fixed time schedule; (ii) restructuring or writing-off arrears accumulated by 1997, and ensuring that no new arrears will emerge; and (iii) periodically revising electricity, gas and heating tariffs so as to attain full cost recovery and cover the costs of writing-off remaining arrears.

As of April 1, 1997 the consolidated financial position of the energy sector was characterized by the following levels of arrears on payables and receivables in millions of U.S. dollars:<sup>24</sup>

	Receivables		Payables
<b>Total:</b>	<b>149.4</b>		<b>142.6</b>
of which:		External debt	79.9
Population	62.7	Domestic debt	62.7
Nairit chemicals	17.0	of which:	
Drinking water/irrigation	20.7	Bank loans	35.2
Heat supplied to Population	9.0	Budget	6.8
Budgetary organizations	6.9	Salaries	1.3
Others	33.1	Others	19.4

In December 1997, the government adopted a strategy which allows for a one-time netting out of tax arrears owed to the budget against amounts accepted as liabilities of the government to the energy sector in the amount of US\$54 million (consisting of arrears of budgetary organizations, of Nairit Chemical Company, the Drinking Water and Irrigation Companies, and overdue heating bills of enterprises and households). This netting out operation takes into account that US\$34 million in external debt owed by the sector to Turkmenistan had been assumed by the government.

Looking forward, the financial rehabilitation strategy involves setting strict limits on the amount of financing that would be provided by the budget to cover the cost of providing energy to strategic users (and the few protected groups remaining); any excess over the allocation in the 1998 budget would be the responsibility of the energy enterprises to collect. Thus, the government discontinued the government guarantee to cover the unpaid bills of the Nairit Chemical Company and authorized the halting of energy supplies in the event of nonpayment. The level of required payments from the Drinking Water Company was raised, and a fixed monthly payment from the budget covering only part of that company's energy consumption was guaranteed. The power sector was authorized to reduce energy supplies to the drinking water company in proportion to unpaid bills. A similar approach will be implemented for the Irrigation Company. In addition, the power sector will periodically revise energy tariffs as agreed with the World Bank, and take measures to enhance payments discipline, leading to substantial improvements in the collection rate.

<sup>24</sup>Amounts calculated as outstanding as of April 1, 1997 prior to finalizing the financial rehabilitation negotiations.

## **D. Legal Reforms**

### **Legal reforms**

71. Major progress was achieved during 1996-97 in creating a stable and transparent legal framework for financial policy making and the operation of enterprises and banks. In addition to the new Energy Law discussed above, the Law on the Central Bank approved by parliament in June 1996, and the Law on the Budgetary Process approved in early 1997, defined the legal modalities of conducting monetary and fiscal policies, respectively. The Law on Banks and Banking, the Law on Bank Insolvency, and the Law on Bankruptcy—all approved by parliament in 1996—defined the rules governing entry and exit to the banking and enterprise sectors in a manner consistent with market principles. The authorities have sued several enterprises in the judicial system under the bankruptcy registration. However, in the vast majority of cases, these have been small- or medium-sized enterprises. Bankruptcy proceedings have not been used frequently to date, as the legislation on privatization does not allow for an enterprise, which is being considered for, or in the process of, privatization to be charged with bankruptcy.

Table 2. Armenia: Consolidated Government Operations, 1994-97 1/

	1994	1995	1996	1997		
				Q1	Q2	Q3
(In millions of dram)						
<b>Total revenue and grants</b>	51,756	103,834	116,606	23,229	33,265	40,540
Total revenue	29,610	84,803	106,935	21,167	31,247	37,485
Tax revenue	24,431	66,457	85,051	18,887	29,164	34,301
Value-added tax	5,076	17,019	21,520	3,989	7,536	11,093
Excises	836	2,388	11,323	1,365	5,633	4,433
Enterprise profits tax	10,712	23,868	16,761	2,590	4,234	4,163
Personal income tax	2,275	6,826	8,795	2,150	3,227	3,334
Land tax	405	1,721	1,940	588	539	560
Customs duties	789	2,707	5,875	1,551	2,872	2,612
Payroll taxes	2,836	10,680	14,717	5,966	4,053	6,084
Other taxes	1,502	900	3,022	442	677	1,326
Presumptive income tax	0	139	490	129	199	294
Property tax	0	210	608	117	196	403
Nontax revenue 2/	5,179	18,346	21,884	2,280	2,083	3,184
Grants 3/	22,147	19,031	9,671	2,062	2,018	3,055
<b>Total expenditure</b>	82,578	150,684	173,450	31,727	40,651	54,438
Current expenditure	64,134	112,725	129,740	26,135	32,997	46,412
Wages	3,443	13,528	18,983	6,484	4,776	5,860
Subsidies	24,032	4,916	815	129	352	872
Interest	3,642	16,112	17,273	2,061	2,327	2,262
Domestic interest	2,156	11,774	12,129	739	1,229	1,426
External interest	1,486	4,339	5,144	1,323	1,098	836
Transfers	7,484	31,084	32,009	9,560	9,079	13,002
Pensions and social safety net	5,690	27,289	28,840	7,884	7,371	10,169
Payment of contingent liabilities	1,046	2,452	500	0	0	0
Other transfers	748	1,344	2,670	1,676	1,708	2,833
Goods and services	25,533	47,085	60,660	7,900	16,463	24,416
Health and education	3,931	12,866	9,725	663	2,964	3,417
Other	21,602	34,219	50,935	7,237	13,499	20,999
Capital expenditure and net lending	18,444	37,958	42,856	5,592	7,655	8,025
of which: net lending	531	2,575	16,062	848	1,571	623
Restructuring expenses	0	0	855	0	0	0
<b>Overall deficit (accrual) (-)</b>	-30,822	-46,850	-56,845	-8,498	-7,386	-13,898
Net change in total expenditure arrears	11,900	-11,274	-4,832	2,536	-2,064	1,980
<b>Overall deficit (cash) (-)</b>	-18,922	-58,124	-61,677	-5,962	-9,451	-11,918
<b>Financing</b>	18,922	58,102	61,677	6,102	11,757	9,417
Domestic financing	6,685	3,024	18,540	4,661	4,981	-15,669
Banking system	5,649	2,776	14,535	3,477	4,686	-17,485
Central Bank of Armenia	6,571	2,316	9,037	4,273	4,231	-19,809
Rest of banking system	-922	460	5,498	-796	455	2,324
Nonbank	84	248	4,039	1,184	295	1,816
Privatization receipts	84	48	212	9	9	16
Treasury bills	0	201	1,773	1,175	286	1,800
External financing	12,238	55,078	43,103	1,441	6,776	25,086
Gross inflow	12,245	75,650	5,692	4,135	8,457	25,105
Amortization due	7	20,573	0	2,694	1,681	19
<b>Financing discrepancy 4/</b>	0	-22	0	139	2,307	-2,501

Sources: Armenian authorities; and Fund staff estimates.

1/ Consolidated accounts of the Republican government, the local authorities, and the Pension and Employment Fund.

2/ For Q2 1996 includes dram 328 million and dram 326 million for the sale of embassy property to Greece and China, respectively.

3/ Grants of wheat and wheat flour and of olive oil. Also includes cash grants of \$2.9 million from the Netherlands and ECU 8 million from EU in 1996 Q4.

4/ Defined as the difference between the overall deficit obtained above the line and total financing.

Table 3. Armenia: Consolidated Government Operations, 1994-97 1/

	1994	1995	1996	1997		
				Q1	Q2	Q3
(In percent of GDP)						
<b>Total revenue and grants</b>	27.6	19.9	17.7	13.3	17.7	20.7
<b>Total revenue</b>	15.8	16.2	16.2	12.2	16.6	19.1
<b>Tax revenue</b>	13.0	12.7	12.9	10.8	15.5	17.5
Value-added tax	2.7	3.3	3.3	2.3	4.0	5.7
Excises	0.4	0.5	1.7	0.8	3.0	2.3
Enterprise profits tax	5.7	4.6	2.5	1.5	2.2	2.1
Personal income tax	1.2	1.3	1.3	1.2	1.7	1.7
Land tax	0.2	0.3	0.3	0.3	0.3	0.3
Customs duties	0.4	0.5	0.9	0.9	1.5	1.3
Payroll taxes	1.5	2.0	2.2	3.4	2.2	3.1
Other taxes	0.8	0.2	0.5	0.3	0.4	0.7
Presumptive income tax	0.0	0.0	0.1	0.1	0.1	0.2
Property tax	0.0	0.0	0.1	0.1	0.1	0.2
Nontax revenue	2.8	3.5	3.3	1.3	1.1	1.6
Grants	11.8	3.6	1.5	1.2	1.1	1.6
<b>Total expenditure</b>	44.1	28.9	26.3	18.2	21.6	27.8
<b>Current expenditure</b>	34.2	21.6	19.6	15.0	17.5	23.7
Wages	1.8	2.6	2.9	3.7	2.5	3.0
Subsidies	12.8	0.9	0.1	0.1	0.2	0.4
Interest	1.9	3.1	2.6	1.2	1.2	1.2
Domestic interest	1.2	2.3	1.8	0.4	0.7	0.7
External interest	0.8	0.8	0.8	0.8	0.6	0.4
Transfers	4.0	6.0	4.8	5.5	4.8	6.6
Pensions and social safety net	3.0	5.2	4.4	4.5	3.9	5.2
Payment of contingent liabilities	0.6	0.5	0.1	0.0	0.0	0.0
Other transfers	0.4	0.3	0.4	1.0	0.9	1.4
Goods and services	13.6	9.0	9.2	4.5	8.7	12.5
Health and education	2.1	2.5	1.5	0.4	1.6	1.7
Other	11.5	6.6	7.7	4.2	7.2	10.7
Capital expenditure and net lending	9.8	7.3	6.5	3.2	4.1	4.1
Of which: net lending	0.3	0.5	2.4	0.5	0.8	0.3
Restructuring expenses	0.0	0.0	0.1	0.0	0.0	0.0
<b>Overall deficit (accrual) (-)</b>	-16.4	-9.0	-8.6	-4.9	-3.9	-7.1
Net change in total expenditure arrears	6.3	-2.2	-0.7	1.5	-1.1	1.0
<b>Overall deficit (cash) (-)</b>	-10.1	-11.1	-9.3	-3.4	-5.0	-6.1
<b>Financing</b>	10.1	11.1	9.3	3.5	6.2	4.8
<b>Domestic financing</b>	3.6	0.6	2.8	2.7	2.6	-8.0
Banking system	3.0	0.5	2.2	2.0	2.5	-8.9
Central Bank of Armenia	3.5	0.4	1.4	2.5	2.2	-10.1
Rest of banking system	-0.5	0.1	0.8	-0.5	0.2	1.2
Nonbank	0.0	0.0	0.6	0.7	0.2	0.9
Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.3	0.7	0.2	0.9
External financing	6.5	10.5	6.5	0.8	3.6	12.8
Gross inflow	6.5	14.5	0.9	2.4	4.5	12.8
Amortization due	0.0	3.9	0.0	1.5	0.9	0.0
<b>Financing discrepancy 2/</b>	0.0	0.0	0.0	0.1	1.2	-1.3
<b>Memorandum item:</b>						
GDP (in millions of dram)	187,452	522,285	660,311	174,181	188,178	195,954

Sources: Armenian authorities; and Fund staff estimates.

1/ Consolidated accounts of the Republican government, the local authorities, and the Pension and Employment Fund.

2/ Defined as the difference between the overall deficit obtained above the line and total financing.

Table 4. Armenia: Accounts of the Central Bank, 1994-97  
(End of period, millions of dram)

	1994				1995				1996				1997		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2	Q3
<b>NFA (convertible currencies)</b>	<b>3,332</b>	<b>15,110</b>	<b>12,830</b>	<b>5,130</b>	<b>14,639</b>	<b>15,110</b>	<b>12,830</b>	<b>5,130</b>	<b>21,948</b>	<b>16,502</b>	<b>15,688</b>	<b>42,181</b>			
<b>NDA</b>	<b>11,504</b>	<b>12,422</b>	<b>16,574</b>	<b>31,664</b>	<b>14,724</b>	<b>12,422</b>	<b>16,574</b>	<b>31,664</b>	<b>19,308</b>	<b>22,671</b>	<b>25,291</b>	<b>6,698</b>			
General government	7,885	8,464	11,939	25,920	10,201	8,464	11,939	25,920	19,238	23,511	27,742	7,933			
Republican government	8,463	8,513	12,023	26,088	10,316	8,513	12,023	26,088	19,382	23,603	27,800	8,154			
Local government	0	0	0	0	0	0	0	0	0	0	0	0			
Pension and employment fund	-578	-49	-84	-168	-115	-49	-84	-168	-144	-92	-58	-221			
Banks	3,629	3,844	4,141	6,196	3,781	3,844	4,141	6,196	3,346	3,471	2,287	1,369			
Other items, net	-10	114	494	-452	742	114	494	-452	-3,276	-4,311	-4,738	-2,604			
<b>Reserve money</b>	<b>14,836</b>	<b>27,532</b>	<b>29,404</b>	<b>36,794</b>	<b>29,363</b>	<b>27,532</b>	<b>29,404</b>	<b>36,794</b>	<b>41,256</b>	<b>39,173</b>	<b>40,979</b>	<b>48,879</b>			
Currency outside CBA	11,054	22,799	25,519	32,760	25,743	22,799	25,519	32,760	37,144	33,787	35,533	38,097			
Required reserves	1,510	2,625	2,978	3,796	2,392	2,625	2,978	3,796	3,559	2,915	2,986	5,723			
Correspondent accounts	2,272	1,670	725	91	693	1,670	725	91	359	2,291	2,170	4,663			
Other accounts	0	438	182	147	535	438	182	147	194	180	290	396			
<b>NFA (convertible currencies)</b>	<b>3,175</b>	<b>472</b>	<b>-2,280</b>	<b>-7,700</b>	<b>11,306</b>	<b>472</b>	<b>-2,280</b>	<b>-7,700</b>	<b>16,818</b>	<b>-5,446</b>	<b>-814</b>	<b>26,493</b>			
<b>NDA</b>	<b>10,072</b>	<b>-2,303</b>	<b>4,152</b>	<b>15,090</b>	<b>3,221</b>	<b>-2,303</b>	<b>4,152</b>	<b>15,090</b>	<b>-12,356</b>	<b>3,363</b>	<b>2,620</b>	<b>-18,593</b>			
General government	6,572	-1,737	3,475	13,981	2,316	-1,737	3,475	13,981	-6,682	4,273	4,231	-19,809			
Republican government	6,572	-1,803	3,510	14,065	2,316	-1,803	3,510	14,065	-6,706	4,221	4,197	-19,646			
Local government	0	0	0	0	0	0	0	0	0	0	0	0			
Pension and employment fund	-576	66	-35	-84	463	66	-35	-84	24	52	34	-163			
Banks	3,208	63	297	2,055	152	63	297	2,055	-2,850	125	-1,184	-918			
Other items, net	292	-629	380	-946	753	-629	380	-946	-2,824	-1,035	-427	2,134			
<b>Reserve money</b>	<b>13,246</b>	<b>-1,831</b>	<b>1,872</b>	<b>7,390</b>	<b>14,527</b>	<b>-1,831</b>	<b>1,872</b>	<b>7,390</b>	<b>4,462</b>	<b>-2,083</b>	<b>1,806</b>	<b>7,900</b>			
Currency outside CBA	9,817	-2,944	2,720	7,241	14,689	-2,944	2,720	7,241	4,384	-3,357	1,746	2,564			
Required reserves	1,451	233	353	818	882	233	353	818	-237	-644	71	2,737			
Correspondent accounts	1,978	977	-945	-634	-1,579	977	-945	-634	268	1,932	-121	2,493			
Other accounts	...	-97	-256	-35	161	-97	-256	-35	47	-14	110	106			

Flows (with respect to end of previous period)

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

Table 5. Armenia: Monetary Survey, 1994-97  
(End of period, millions of dram)

	1994				1995				1996				1997			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Stocks																
NFA (convertible currencies)	6,435	14,823	15,940	13,721	2,488	7,769	1,842	-3,693	24,728							
NDA	17,421	25,429	21,119	27,412	49,935	46,602	53,706	62,859	42,930							
Consolidated government	6,901	8,819	5,874	11,616	29,536	23,354	26,831	31,521	13,836							
Republican government	8,423	9,883	6,811	12,389	30,093	23,789	27,531	32,063	14,874							
Local government	-785	-857	-732	-530	-250	-222	-494	-384	-680							
Pension and employment fund	-737	-207	-205	-243	-307	-213	-206	-158	-358							
Economy	20,740	37,947	39,694	31,340	30,197	37,181	40,760	47,032	44,286							
Enterprises	20,095	33,856	35,713	27,503	25,789	32,040	34,808	39,724	36,730							
Rest of economy	645	4,091	3,981	3,837	4,408	5,141	5,952	7,308	7,556							
Other items, net	-10,220	-21,337	-24,449	-15,544	-9,798	-13,933	-13,885	-15,694	-15,192							
Broad Money	23,856	40,252	37,059	41,133	52,423	54,371	55,548	59,166	67,658							
Currency in circulation	10,063	24,601	21,075	23,890	30,276	34,784	31,136	32,548	34,637							
Dram deposits	3,871	7,432	7,437	8,101	10,719	8,158	8,565	10,343	12,097							
FX deposits	9,922	8,219	8,547	9,142	11,428	11,429	15,847	16,275	20,924							
FLOWS (with respect to end of previous period)																
NFA (convertible currencies)	4,906	8,388	1,117	-2,219	-11,233	5,281	-5,927	-5,535	28,421							
NDA	15,908	8,008	-4,310	6,293	22,523	-3,333	7,104	9,153	-19,929							
Consolidated government	5,649	1,918	-2,945	5,742	17,920	-6,182	3,477	4,690	-17,685							
Republican government	7,178	1,460	-3,072	5,578	17,704	-6,304	3,742	4,532	-17,189							
Local government	-800	-72	125	202	280	28	-272	110	-296							
Pension and employment fund	-729	530	2	-38	-64	94	7	48	-200							
Economy	20,316	17,207	1,747	-8,354	-1,143	6,984	3,579	6,272	-2,746							
Enterprises	19,696	13,761	1,857	-8,210	-1,714	6,251	2,768	4,916	-2,994							
Rest of economy	620	3,446	-110	-144	571	733	811	1,356	248							
Other items, net	-10,057	-11,117	-3,112	8,905	5,746	-4,135	48	-1,809	502							
Broad Money	20,814	16,396	-3,193	4,874	11,290	1,948	1,177	3,618	8,492							
Currency in circulation	9,045	14,538	-3,526	2,815	6,386	4,508	-3,648	1,412	2,089							
Dram deposits	3,204	3,561	5	664	2,618	-2,561	407	1,778	1,754							
FX deposits	8,565	-1,703	328	595	2,286	1	4,418	428	4,649							
Memorandum items:																
Money multiplier	1.6	1.4	1.3	1.4	1.4	1.3	1.4	1.4	1.4							
Velocity	4.8	3.7	3.9	3.6	3.4	3.4	3.1	3.2	2.9							

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



Table 6. Armenia: Quarterly Balance of Payments and External Financing, 1994 - 97  
(In millions of U.S. dollars; unless otherwise indicated)

	1994	1995	1996					1997		
			Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Current account (excluding official transfers)	-231	-483	-99	-102	-95	-129	-425	-118	-108	-85
Trade balance	-192	-402	-96	-108	-117	-146	-467	-138	-138	-125
Exports	209	271	42	74	90	83	290	36	55	62
Imports	-401	-673	-139	-182	-207	-230	-757	-173	-193	-186
<i>of which: gas</i>	-69	-129	-16	-8	-16	-17	-57	-18	-18	-18
Services (net)	-75	-99	-17	-11	4	-8	-32	-4	6	5
Non-factor services	-69	-90	-16	-18	-17	-16	-66	-13	-11	-16
Credit	48	34	12	16	23	27	78	16	21	23
Debit	-117	-123	-28	-34	-39	-43	-144	-29	-33	-39
Interest (net)	-7	-10	-2	-3	-3	-8	-15	-3	-5	-3
Other factor services	0	0	1	10	23	15	49	12	22	24
Private transfers	36	18	15	17	18	25	74	23	24	35
Capital flows	-1	-31	2	-21	-6	-6	-31	-2	-9	-4
Amortization	-4	-50	-5	-30	-9	-9	-54	-8	-15	-10
Foreign direct investment	3	19	7	9	3	3	22	6	7	7
Balance on current account and capital flows	-232	-514	-97	-123	-101	-135	-456	-120	-117	-89
Change in gross official reserves (- increase)	-30	-75	-26	7	-4	-37	-60	15	-21	-56
Financing requirement	263	589	123	116	105	172	516	105	138	145
IFIs	42	161	54	19	37	41	151	10	33	50
IMF	24	46	25	0	25	0	49	0	23	0
World Bank	7	92	26	17	12	39	94	5	4	45
EBRD	12	22	3	2	0	2	7	5	5	5
IFAD	0	0	1	0	0	0	1	0	0	0
Official transfers 1/	237	199	27	61	32	58	179	38	42	33
United States	187	142	17	54	27	38	136	35	36	20
European Union	47	32	4	3	0	7	14	3	6	13
Others	4	25	6	5	5	13	28	0	0	0
Other financing (disbursements)	24	47	53	3	21	50	127	17	32	25
Bilateral	24	10	53	0	8	3	64	3	14	5
<i>of which:</i>										
Russia	...	10	6	0	5	3	14	3	5	5
Turkmenistan	...	0	34	0	0	0	34	0	0	0
United States	...	0	14	0	1	0	15	0	8	0
Japan	...	0	0	0	0	0	0	0	0	0
Commercial	...	37	0	3	13	48	63	13	18	20
Errors and omissions	-17	133	22	9	3	27	61	39	22	29
Changes in overdue obligations (- decrease)	-24	50	-34	25	12	-4	-1	1	-3	0
Debt service relief already secured	0	0	0	0	0	0	0	0	12	8
Memorandum items:										
Current account balance (in percent of GDP)	-35.6	-37.6	-27.3	-27.8	-22.0	-30.1	-26.7	-31.6	-28.5	-21.8
Gross official reserves (convertible)	32	107	133	126	130	168	168	152	170	224
(In months of imports of G&NFS)	0.7	1.6	2.4	1.8	1.6	1.8	2.2	2.3	2.3	3.0
Net international reserves (convertible)	8	37	38	32	13	50	50	35	33	90
Exports (in percent of GDP)	32.2	21.1	11.7	20.2	21.0	19.4	18.2	9.6	14.6	15.8
Imports (in percent of GDP)	61.6	52.3	38.4	49.8	48.0	53.4	47.6	46.4	50.8	47.8
External debt 2/	200	371	471	483	532	614	614	617	669	735
of which: public & publicly guaranteed	200	371	471	480	519	577	577	568	609	663
External debt/GDP (in percent)	31	29	33	33	31	36	39	41	44	47
of which: public & publicly guaranteed	31	29	33	33	30	34	36	38	40	42
Debt service obligations	8	63	9	34	13	18	74	13	22	15
(In percent of exports of G&NFS)	3.0	20.6	16.0	37.9	11.5	16.6	20.2	24.1	28.2	18.2

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

1/ Includes food aid, technical assistance, and macroeconomic assistance.

2/ Includes private non-guaranteed debt.

### The Privatization of Armentel

1. On December 9, 1997 a consortium led by the Greek telecommunications company OTE<sup>1</sup> agreed to buy 90 percent of Armenian telephone operator Armentel;<sup>2</sup> Armenia will retain the remaining 10 percent. Prior to the sale, the Armenian government held a 51 percent stake in Armentel, while the remaining 49 percent was held by Trans World Telecommunications Inc. (TWT), a U.S. company. The tender was conducted by Merrill Lynch International. The sale of this enterprise was the first, and possibly the largest in the ongoing privatization through international tenders of 14 large state-owned enterprises. The deal is expected to be officially signed in early January 1998.

2. Cash payments under the deal will amount to about US\$142 million, with an agreement that OTE would invest a further US\$300 million in Armenia's communications network over ten years, including US\$200 million in the first five years. OTE will be responsible for repaying Armentel's US\$47 million external debt.

Under the agreement, OTE will:

- (i) pay US\$142 million up front, of which US\$62 million goes to TWT, and US\$80 million goes to the government of Armenia;
- (ii) obtain an exclusive 15-year license on both fixed and mobile telecommunications services (internal telephone lines, international lines and paging systems) in Armenia;
- (iii) be licensed to provide other telecommunications services on a non-exclusive basis;
- (iv) cut rates on international calls;
- (v) hold regular residential phone fees to 600 drams (US\$1.20) per month until 1999, when they would be raised to 850 drams;<sup>3</sup> hold rates for commercial enterprises to about US\$5 per month until 1999;
- (vi) limit further tariff increases to the level of inflation; and
- (vii) install a large number of digital lines, raising digitalization to 47 percent by 2008.<sup>4</sup>

---

<sup>1</sup>OTE heads a consortium which is expected to include the Cyprus-based Leventis group and the EBRD. OTE has a capitalization of around US\$9.5 billion, and currently operates 5.5 million lines with 23,800 employees. Its new acquisition follows the purchase of a 20 percent stake in Serbia's Telecom Srbija.

<sup>2</sup>Armentel took over Armenia's entire state telephone network in the summer of 1997 in accordance with a government decision.

<sup>3</sup> Armentel does not currently charge for local calls as it lacks the technology to meter them.

<sup>4</sup>Armenia currently has 585,000 telephone lines in service, of which only 3 percent is digital.

### **Banking System Restructuring**

1. By late 1995, the CBA had created the capacity to effectively monitor banks and implement its regulatory tasks. A large number of insolvent small banks had been closed but the problem of large banks remained to be addressed.<sup>5</sup> A bold strategy to address the remaining fragility of the banking system was clearly needed. To this end, at the beginning of 1996, the CBA launched a two-year program aimed at improving the health of the banking system and increasing the transparency of banking activities. The cornerstones of this program were: (i) a two-year schedule to remove bad loans from the balance sheets of banks and to build up adequate provisions against remaining classified loans; (ii) a phased increase in the liquidity and capital requirements, leading to the required minimum levels of capital adequacy as recommended by the Basle Committee effective January 1, 1998; (iii) the closure of any additional small banks which were found insolvent and the launching of specific CBA programs to rehabilitate major problem banks; (iv) improvements in banking system data compilation, enabling forceful and more comprehensive banking supervision by the CBA; and (v) the introduction of a new chart of accounts for both the CBA and for commercial banks.

2. Given the fragile state of the banking system in early 1996—with most banks being technically insolvent when judged according to IAS standards—these goals were widely believed to be highly ambitious. Throughout the implementation program, banking supervision was strict, forcing banks to categorize loans of doubtful recoverability as classified loans (and set aside provisions against them). In the process more than half of the banks that had been operating at end-1995 were closed. Due to this shake-out of assets and banks, and the specific restructuring programs for the large problem banks (see below), by September 1997 the banking system was well on its way to achieving solvency.

3. The main indicators of the progress achieved during the 12-month period ending in September 1997 include: (i) the growth in the total capital of the banking system grew by over 60 percent (or over a third in U.S. dollar terms) despite the adverse impact on banks' capital of writing off bad loans; (ii) the decline in the ratio of bad loans to total capital from 79 percent to 28 percent, while loan loss reserves increased to cover 97 percent of remaining loss loans, compared to under 40 percent a year earlier; and (iii) the decline in the share of classified loans in total loans from 30 percent to under 20 percent. The implementation of the program, however, brought about a sharp worsening of banks' profit position as banks began to set aside sizable provisions against all classified loans (Figure 12). In every month since the launching of this program, the banking system as a whole ran losses. The losses were not high in 1996 when banks were still building up their reserves. However, they rose sharply in 1997

---

<sup>5</sup>By end-September 1995, 37 banks had been closed.

when banks began writing off substantial amounts of bad loans, particularly in April-September 1997. There were, nonetheless, some 19 commercial banks which had realized profits by end-1997.<sup>6</sup>

4. Four of the five banks which had been specialized banks in the Soviet era remained problem banks during much of 1996-97 due to management problems and a more than proportional share of nonperforming assets. All have now been rehabilitated: two of them using significant budgetary resources (the case of Ardshinbank, once the largest bank in terms of total assets, is described in Box 3), and the other two primarily through their own efforts and successful new share issues.

---

<sup>6</sup>However, relatively few banks had wide margins over minimum levels of solvency.

**Box 3: Ardshinbank Restructuring**

Ardshinbank (AB) was among the three major banks that have been subject since February 1997 to CBA-mandated restructuring programs, which prescribed specific quarterly paths of minimum capital and liquidity levels. By mid-1997, AB was in a serious situation due to the heavy burden of overdue loans, accounting for over 70 percent of its loan portfolio, mostly extended to large state enterprises, due either to government pressure or because they were important shareholders of AB. However, the enterprises accounting for the bulk of overdue loans were shielded from AB initiating bankruptcy proceedings against them by a decree which precluded such proceedings against enterprises in the process of being privatized through international tender. Thus, the speedy recovery of massive amounts of loss loans was beyond reach. Given the need to provision large amounts against these loans, the bank ran continuous losses, depleted its capital, and breached the end-June minimum capital requirement under its restructuring program.

In July 1997, the CBA and the ministry of finance and economy agreed with certain shareholders of AB to suspend their rights (these shareholders included state enterprises holding 46 percent of total shares and, up to that date, delegating seven Board members; and private individuals holding an additional 5 percent of total shares). Based on its newly acquired majority rights, the government installed a new management in mid-August, which began to implement an aggressive loan loss recovery strategy, eliminated shareholdings in other banks and enterprises, radically amended the structure of assets and liabilities, and began to reduce overhead costs, leading to much improved financial performance, including a 35 percent reduction in operational and administrative expenses by November 1, 1997. The new management also made substantial progress in improving AB's balance sheet. In particular, total assets grew by 5.7 percent, reaching dram 11.6 billion; however, their composition changed dramatically, with total loans dropping by almost 50 percent to dram 3.3 billion as a result of writing off overdue loans of dram 2.8 billion, and liquid risk-free assets earning high interest (treasury bills and CBA auctioned deposits) increasing by over dram 1 billion as a result. Finally, total capital grew by dram 1.5 billion. Earnings were boosted substantially.

Two swap deals, involving the write-off of about US\$4 million in loss loans and associated interest to two major state enterprises in return for several valuable government-owned buildings--including the bank's headquarters, previously leased from the government--proved to be pivotal in recapitalizing AB. As a result, from November 1997, AB complies with all CBA prudential requirements, including the capital adequacy and liquidity requirements. A CBA Board decision in mid-November declared the bank to be financially rehabilitated, with no additional special treatment envisaged for it in the future. Finally, the government declared that it will take decisive measures to relinquish its shareholdings in Ardshinbank in the near future. The completion of the bank's financial adjustment program comes amid growing interest from foreign investors.

5. In the last two years, there has also been significant improvement in developing a sound legal framework for banking activities and to increase transparency. The obvious conflict of interest arising from ministers acting as chief decision makers in four of the former specialized commercial banks was eliminated by mid-1997, although the government still has

some representatives in a few banks.<sup>7</sup> The adoption of a series of fundamental banking laws in 1996 created a well-defined, transparent environment for the operation of commercial banks in Armenia, although further refinements will be needed as the financial system develops and more experience is gained with the new legal framework. An efficient electronic payments system was successfully introduced first in Yerevan, then in the whole country, and functioned smoothly by mid-1997. There has also been an improvement on the reliability, coverage and timeliness of banking sector data. Nevertheless, a new chart of accounts for commercial banks based on IAS standards will be implemented beginning from January 1, 1998, facilitating an improvement in banking statistics and supervision, and the maintenance of commercial bank accounts on an internationally accepted basis.

6. The Armenian banking system was one of the few sectors of the economy which reported a significant influx of foreign investment during the past three years. The share of foreign capital has increased from practically zero to 38 percent at end-September, with a discernible positive effect on the level of banking services offered. Apart from three fully foreign-owned banks, Armenia's largest bank now also has a majority foreign ownership, and foreign investors have expressed serious interest in a number of other Armenian banks. As a result, the government is contemplating reducing its remaining direct ownership of banks in the near future.

7. The primary force behind the improving health of the banking system has been the CBA, working in coordination with the ministry of finance and economy. The Fund, in coordination with other cooperating central banks and multilateral institutions providers, have given extensive technical assistance to Armenia in this area.<sup>8</sup>

8. Despite the marked improvement, the Armenian financial sector continues to face many challenges. Clearly, while the stock problem of nonperforming loans will have been adequately addressed by early 1998, continued vigilance will be needed to prevent a re-emergence of bad loans. Most banks will need to continue working on improving their risk assessment, the rate of recovering nonperforming assets, and the efficiency of internal control. This is especially important since some sources of profit may dry up as interest rates and spreads decline with subsiding inflation. The banking system will also need to actively seek ways to attract long-term deposits so as to be in a position to lengthen the maturity of their lending. Finally, action is needed to bring the nonbank financial sector to the level of efficiency and capitalization achieved by banks.

---

<sup>7</sup>This is in part related to the government's ownership of sizable portions of shares in several banks, including 26 percent of the shares in Ardshinbank, and 100 percent in the Savings Bank at end-September 1997.

<sup>8</sup>The CBA has substantially improved its policy analysis and implementation capabilities (including a significantly strengthened banking supervision department), and successfully put in place a new chart of accounts in August 1996.

Table 1. Armenia: Real Gross Domestic Product Growth, 1994-97

	1994	1995	1996	1996 <sup>1/</sup> Jan.-Sept.	1997 <sup>1/</sup> Jan.-Sept.
(At 1994 prices, millions of dram)					
Gross domestic product	187,064	199,956	211,553	123,518	126,606
Industry	54,495	55,910	56,581	33,743	33,912
Agriculture	81,304	84,516	85,953	61,114	58,364
Construction	12,508	11,783	14,788	3,525	3,814
Transport and communication <sup>2/</sup>	7,838	8,591	8,832	4,341	4,410
Wholesale and retail trade	8,423	14,568	16,389	6,315	6,637
Other	22,496	24,588	29,010	14,480	19,469
(In percent change over same period previous year)					
Gross domestic product	5.4	6.9	5.8	4.5	2.9
Industry	9.6	2.6	1.2	1.5	0.5
Agriculture	3.1	4.0	1.7	5.0	-4.5
Construction	5.4	-5.8	25.5	-8.7	8.2
Transport and communication <sup>2/</sup>	-4.2	9.6	2.8	-1.7	1.6
Wholesale and retail trade	60.2	73.0	12.5	13.5	5.1
Other services <sup>3/</sup>	-2.2	9.3	18.0	11.1	22.9

Sources: State Department of Statistics; and Fund staff estimates.

1/ Seasonally unadjusted.

2/ Includes passenger transport only during 1994-95.

3/ Includes the government sector.

Table 2. Armenia: Gross Domestic Product, 1994 - 97

	1994	1995	1996	1996 <sup>1/</sup> Jan.-Sept.	1997 <sup>1/</sup> Jan.-Sept.
(In current prices, millions of dram)					
Gross domestic product	187,064	522,256	660,310	416,697	492,052
Industry	54,495	126,731	156,980	110,523	134,806
Agriculture	81,304	202,135	217,594	164,064	165,127
Construction	12,508	44,512	63,124	23,816	32,894
Transport and communication <sup>2/</sup>	7,838	22,646	31,023	18,704	24,221
Trade	8,423	49,781	63,262	32,927	36,961
Other services <sup>3/</sup>	22,496	76,451	128,327	66,663	98,043
(Share in total; in percent)					
Gross domestic product	100	100	100	100	100
Industry	29.13	24.27	23.77	26.52	27.40
Agriculture	43.46	38.70	32.95	39.37	33.56
Construction	6.69	8.52	9.56	5.72	6.69
Transport and communication <sup>2/</sup>	4.19	4.34	4.70	4.49	4.92
Trade	4.50	9.53	9.58	7.90	7.51
Other services <sup>3/</sup>	12.03	14.64	19.43	16.00	19.93

Source: State Department of Statistics.

1/ Seasonally unadjusted.

2/ Includes passenger transport only in 1994-95.

3/ Includes government.



Table 3. Armenia: Production of Selected Agricultural Products, 1994-97  
(In thousand tons, unless stated otherwise)

	1994	1995	1996	1996 Jan-Sept.	1997 Jan-Sept.
Grains	238.1	262.7	328.4	300	252
<i>of which:</i>					
Wheat	152.9	153.8	201.4	185	154
Potatoes	417.2	427.7	423.2	340	250
Vegetables	424.3	450.9	444.5	400	340
Fruit	127.5	146.1	158.2	115	90
Grapes	212.4	154.9	158.5	94	65
Beef and poultry	79.0	82.4	82.6	52.4	55.1
Milk	415.2	428.3	431.3	361.5	366.6
Eggs (millions)	191.3	197.6	192.2	168.6	167.9
Wool	1.7	1.5	1.4	168.6	167.9
Tobacco	0.5	0.2	0.0	0.0	0.0

Source: State Department of Statistics.



Table 5. Armenia: Total Electricity Generation, Distribution and Collection, 1994 - 97

	1994	1995	1996	1996 Jan.-Sept.	1997 Jan.-Sept.
<b>Production of electric energy (in mln kWh)</b>					
<i>of which:</i>					
Thermal	5,658	5,561	6,215	3,126	3,114
Hydro	2,144	3,338	2,318	928	1,174
Nuclear 1/	3,514	1,919	1,573	803	680
	0	304	2,324	1,395	1,260
<b>Production of electric energy (in percent of total)</b>					
<i>of which:</i>					
Thermal	38	60	37	30	38
Hydro	62	35	25	26	22
Nuclear	0	5	38	45	40
<b>Distribution (in percent of total)</b>					
Population	44	46	36	48	...
Enterprises	54	52	57	45	...
Other (unmetered)	1	3	7	7	...
<b>Collection rate (in percent of total)</b>					
Population	...	34	...	45	...
Enterprises 2/	...	63	...	80	...
Total	...	50	...	53	...

Sources: Armenian authorities; and the World Bank.

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

2/ Excludes the Nairit Chemical Company and the Drinking Water and Irrigation companies.

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

Sources: State Department of Statistics; and Fund staff estimates.

Table 7. Regulated Prices for Main Commodities and Services, 1994-97 1/

Item	Unit	1994		1995		1996		1997	
		Dec.	Dec.	Dec.	Dec.	Jan.-Sept.	Jan.-Sept.	Jan.-Sept.	
Transport (bus)	1 trip	5.0	25.0	50.0	45.7	50.0	50.0	50.0	
Electricity	1 kWh	10.0	12.0	14.0	13.3	17.0	17.0	17.0	
Telephone	monthly	10.4	101.0	101.0	101.0	378.0	378.0	378.0	
Rent	monthly/sq. m	0.5	8.0	10.4	8.5	10.0	10.0	10.0	
Water	1 cubic meter	0.7	14.7	14.7	14.7	21.0	21.0	21.0	
Sewage	monthly	...	4.2	4.2	4.2	6.1	6.1	6.1	
Garbage	monthly	12.0	60.0	60.0	60.0	60.0	60.0	60.0	

(In current drams)

Source: Armenian authorities.

1/ Data for Yerevan only.

Table 8. Armenia: Average Monthly Wages in the State Sector, 1994-97 1/  
(In current drams)

	1994	1995	1996	1996 Jan.-Sept.	1997 Jan.-Sept.
Total	1,720	5,910	8,613	9,186	10,800
Material sphere	2,257	8,370	11,828	12,420	15,050
Non-material sphere	1,056	3,282	5,782	6,298	7,680
<i>of which:</i>					
Budgetary sphere	863	3,077	5,121	5,655	7,120
By branch:					
Industry	2,963	7,503	12,337	13,083	15,400
Agriculture	1,015	5,681	8,106	7,710	9,520
Forestry	1,171	3,803	5,172	5,286	6,900
Transport	4,720	9,422	15,277	14,779	19,600
Communications	2,891	10,467	15,692	16,593	18,200
Construction	1,550	12,306	13,524	15,881	17,980
Trade	1,426	4,599	5,853	6,202	7,640
Information and computer services	1,121	4,698	8,400	9,067	12,540
Other material branches	893	3,476	6,820	6,267	10,950
Communal services	1,214	5,480	8,852	8,862	10,320
Health	883	3,515	5,071	5,844	6,910
General administration and management	1,116	2,928	10,516	8,528	14,200
Education, culture and art	729	2,684	3,961	4,867	5,700
Science	1,529	5,140	8,089	7,868	9,300
Finance and insurance	8,592	22,415	22,810	21,831	27,400

Source: State Department of Statistics.

1/ Budgetary and non-budgetary state sectors only.

Table 9. Armenia: Labor Force, Employment, and Unemployment, 1994-97

	1994	1995	1996	1996 Jan.-Sept.	1997 Jan.-Sept.
	(In thousands)				
Potential labor force 1/	2,065	2,084.0	2,108.0	...	...
Total employed	1,488	1,476.4	1,435.6	1,401.8	1,448.3
Registered unemployed	106	106.0	147.9	164.4	143.8
Actual labor force 2/	1,594	1,582.0	1,583.5	1,566.2	1,591.1
Employment by sector	1,488	1,476.4	1,435.6	1,401.8	1,446.3
State sector 3/	794	735.7	646.7	618.8	684.2
Private sector 4/	694	740.7	788.9	783.5	764.1
Material sphere	1,087	1,071.3	1,055.8	1,029.9	1,062.4
Industry	365	302.9	255.0	250.0	258.0
Construction	97	76.0	68.0	65.0	66.0
Agriculture	502	549.6	583.5	570.0	590.0
Forestry	2	2.3	2.5	2.4	2.5
Transport and communications	30	26.8	24.0	22.0	23.8
Wholesale & retail trade, and catering	64	100.0	110.2	110.0	112.0
Other material sphere	27	13.7	12.6	10.5	10.1
Nonmaterial sphere	411	405.1	379.8	371.9	385.9
Education, culture, art	181	180.2	173.8	167.0	173.0
Science	25	22.8	14.7	15.0	14.5
Health, physical culture, and social welfare	84	85.5	81.7	80.1	82.8
Housing and personal services	58	52.2	50.6	54.0	56.0
General administration	30	29.3	28.6	28.8	28.9
Other nonmaterial sphere	33	35.1	30.4	27.0	30.7
<b>Memorandum items</b>	(In percent)				
Employed in state sector 5/	50	46.5	40.8	43.0	39.5
Employed in private sector 6/	44	46.8	49.8	48.0	50.0
Unemployment rate 7/	7	6.7	9.3	9.0	10.5
Unemployment rate 8/	5	5.1	7.0	...	...

Source: State Department of Statistics.

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

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

3/ State and non-state enterprises.

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

5/ Total employed in state sector as percent of actual labor force.

6/ Total employed in private sector as percent of actual labor force.

7/ Registered unemployed as percent of actual labor force.

8/ Registered unemployed as percent of potential labor force.

Table 10. Armenia: Labor Market Indicators, 1994-97 1/

	1994	1995	1996	1996 Jan.-Sept.	1997 Jan.-Sept.
Population (in millions)	3.8	3.8	3.7	3.7	3.7
Employment (in thousands)	1487.6	1476.4	1435.6	1401.8	1448.3
<i>of which :</i>					
Industry	355.2	302.9	255.0	250.0	258.0
Agriculture and forestry	504.3	551.9	586.0	572.4	592.5
Transport and communication	54.9	53.4	48.0	44.0	47.5
Construction	96.8	76.0	68.0	65.0	66.0
Trade and public catering	63.7	100.0	110.2	110.0	112.0
Other services	412.7	392.2	368.4	360.4	372.3
Official number of unemployed persons (in thousands) 2/	91.8	131.7	159.3	152.6	169.8
Official unemployment rate (in percent) 3/	6.6	6.7	9.3	9.0	10.5
Official number of persons on forced leave (in thousands)					
Official number of vacancies (in thousands) 2/	0.5	1.1	0.5	0.5	0.5
Minimum wage in drams 4/	185.0	507.0	757.0	830.0	996.0
Real minimum wage in drams	0.5	0.4	0.5	0.5	0.6
Average wage in drams 4/	2,024	6,086	8,230	10,807	9,186
Real average wage	4.1	4.8	5.5	5.4	6.5
Average dollar wage 5/	6.0	15.0	20.0	18.2	23.0
Employment in agricultural households (in thousands)	461.7	534.7	572.0	561.2	577.0

Source: Armenian authorities.

1/ Data cover only the public sector, including budgetary organizations and state-owned enterprises.

2/ At the end of period.

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

4/ During the last month of the period; for 1992 and 1993, figures are in Russian rubles.

5/ At the official exchange rate.



Table 11. Armenia: Employment in the Public Sector, 1994-97  
(In thousands of persons)

	1994	1995	1996	1996	1997
				Jan.-Sept.	Jan.-Sept.
Total	1487.6	1476.4	1435.6	1402.4	1448.3
Industry	355.2	302.9	255.0	250.0	258.0
Agriculture	502.1	549.6	583.5	570.0	590.0
Transportation and communications	54.9	53.4	48.0	44.0	47.5
Construction	96.8	76.0	68.0	65.6	66.0
Trade and public catering	63.7	100.0	110.2	110.0	112.0
Information and computer services	1.4	1.4	1.3	1.0	1.2
Housing and communal services	57.9	52.2	50.6	54.0	56.0
Health care, physical training, social security	83.6	85.5	81.7	80.1	82.8
Public education	147.4	147.5	142.1	137.0	142.0
Culture and art	34.0	32.7	31.7	30.0	31.0
Science and scientific support	27.0	22.8	14.7	15.0	14.5
Financing and insurance	7.9	8.5	6.4	5.0	7.0
Administrative agencies	30.4	29.3	28.6	28.8	28.9
Other sectors	25.3	14.6	13.8	11.9	11.4

Source: State Department of Statistics.

Table 12. Armenia: Budgetary Sector Employment, 1994-97  
(At end of period; in thousands of employees)

	1994	1995	1996				1997			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Total	407	380	371	357	364	344	344	282.0	279.3	278.3
<i>of which:</i>										
Education, culture, art	181	173	171	163	168	148	148	131.7	130.2	130.3
Science	23	15	14	14	16	16.7	16.7	16.4	16.4	15.9
Health, physical culture, social welfare	81	70	71	69	68	55	55	6.0	6.0	6.0
General administration	30	18	18	14	18	18	18	20.0	19.0	17.0
Other (including military)	92	104	97	97	109	109	109	111.0	111.0	109.0

Source: Armenian authorities.

Table 13. Armenia: State Government Operations, 1994-1997 1/

	1994	1995	1996	1997		
				Q1	Q2	Q3
(In millions of dram)						
<b>Total revenue and grants</b>	48,921	92,805	99,580	17,263	28,728	33,318
Total revenue	26,774	73,774	89,909	15,201	26,710	30,263
Tax revenue	21,595	55,777	70,334	12,922	25,112	28,217
Value-added tax	5,076	17,019	21,520	3,989	7,536	11,093
Excises	836	2,388	11,323	1,365	5,633	4,433
Enterprise profits tax	10,712	23,868	16,761	2,590	4,234	4,163
Personal income tax	2,275	6,826	8,795	2,150	3,227	3,334
Land tax	405	1,721	1,940	588	539	560
Customs duties	789	2,707	5,875	1,551	2,872	2,612
Other taxes	1,502	900	3,022	442	677	1,326
<i>of which: stamp duties</i>	0	878	2,767	373	597	1,109
Presumptive income tax	-	139	490	129	199	294
Property tax	-	210	608	117	196	403
Nontax revenue 2/	5,179	17,997	19,575	2,280	1,599	2,046
Grants 3/	22,147	19,031	9,671	2,062	2,018	3,055
<b>Total expenditure</b>	80,472	139,125	156,397	25,755	36,067	47,417
Current expenditure	62,028	101,167	112,686	20,163	28,412	39,391
Wages	3,443	13,528	18,983	6,484	4,776	5,860
Subsidies	24,032	4,916	815	129	352	872
Interest	3,642	16,112	17,273	2,061	2,327	2,262
Domestic interest	2,156	11,774	12,129	739	1,229	1,426
External interest	1,486	4,339	5,144	1,323	1,098	836
Transfers	5,487	17,349	15,286	4,555	4,540	6,316
Child allowances	2,382	8,183	5,907	1,914	1,481	1,743
Pension contributions	802	3,608	4,923	965	1,221	1,420
Payment of contingent liabilities	1,046	2,452	500	0	0	0
Other transfers	694	2,478	3,674	1,584	1,637	2,750
Transfer to Pension Fund	510	450	0	0	130	320
Goods and services	25,424	49,261	60,330	6,933	16,418	24,081
Health	2,219	6,504	4,467	584	2,222	2,490
Education	1,712	6,362	5,258	79	742	927
Other	21,493	36,395	50,605	6,270	13,454	20,664
Capital expenditure & net lending	18,444	37,958	42,856	5,592	7,655	8,025
<i>of which: net lending</i>	531	2,575	16,062	848	1,571	623
Restructuring expenses	0	0	855	0	0	0
<b>Overall deficit (accrual)(-)</b>	-31,551	-46,320	-56,817	-8,492	-7,339	-14,098
Net change in total expenditure arrears	11,900	-11,274	-4,832	2,536	-2,064	1,980
<b>Overall deficit (cash) (-)</b>	-19,651	-57,594	-61,649	-5,956	-9,403	-12,118
<b>Actual/Identified Financing</b>	19,651	57,571	61,649	6,095	11,709	9,617
Domestic financing	7,414	2,493	18,546	4,654	4,933	-15,469
Banking system	6,378	2,245	14,541	3,470	4,638	-17,285
Central Bank of Armenia	7,147	1,853	9,066	4,221	4,197	-19,646
Rest of banking system	-769	392	5,475	-751	441	2,361
Nonbank	84	248	4,005	1,184	295	1,816
Privatization receipts	84	48	212	9	9	16
Treasury bills	0	201	1,773	1,175	286	1,800
External Financing	12,238	55,078	43,103	1,441	6,776	25,086
Gross inflow	12,245	75,650	5,692	4,135	8,457	25,105
Amortization due	7	20,573	0	2,694	1,681	19
<b>Financing discrepancy 4/</b>	0	-23	0	139	2,307	-2,501
Domestic deficit 5/	-44,964	-53,698	-52,138	-4,003	-6,338	-10,240

Sources: Armenian authorities, and staff estimates.

1/ Consolidated accounts of the Republican government and the local authorities.

2/ For Q2 1996 includes dram 328 million and dram 326 million for the sale of embassy property to Greece and China, respectively.

3/ Grants of wheat and wheat flour and of olive oil. Also includes cash grants of \$2.9 million from the Netherlands and ECU 8 million from EU in 1996 Q4.

4/ Defined as the difference between the overall deficit obtained from above the line and total financing.

5/ Domestic deficit defined as total revenues (excluding grants) minus current expenditure, domestically financed capital expenditure and net arrears repayment.

Table 14. Armenia: State Government Operations, 1994-1997 1/

	1994	1995	1996	1997		
				Q1	Q2	Q3
(In percent of GDP)						
<b>Total revenue and grants</b>	26.1	17.8	15.1	9.9	15.3	17.0
<b>Total revenue</b>	14.3	14.1	13.6	8.7	14.2	15.4
<b>Tax revenue</b>	11.5	10.7	10.7	7.4	13.3	14.4
Value-added tax	2.7	3.3	3.3	2.3	4.0	5.7
Excises	0.4	0.5	1.7	0.8	3.0	2.3
Enterprise profits tax	5.7	4.6	2.5	1.5	2.2	2.1
Personal income tax	1.2	1.3	1.3	1.2	1.7	1.7
Land tax	0.2	0.3	0.3	0.3	0.3	0.3
Customs duties	0.4	0.5	0.9	0.9	1.5	1.3
Other taxes	0.8	0.2	0.5	0.3	0.4	0.7
Of which : stamp duties	0.0	0.2	0.4	0.2	0.3	0.6
Presumptive income tax	0.0	0.0	0.1	0.1	0.1	0.2
Property tax	0.0	0.0	0.1	0.1	0.1	0.2
<b>Nontax revenue 2/</b>	2.8	3.4	3.0	1.3	0.8	1.0
<b>Grants 3/</b>	11.8	3.6	1.5	1.2	1.1	1.6
<b>Total expenditure</b>	42.9	26.6	23.7	14.8	19.2	24.2
<b>Current expenditure</b>	33.1	19.4	17.1	11.6	15.1	20.1
Wages	1.8	2.6	2.9	3.7	2.5	3.0
Subsidies	12.8	0.9	0.1	0.1	0.2	0.4
Interest	1.9	3.1	2.6	1.2	1.2	1.2
Domestic interest	1.2	2.3	1.8	0.4	0.7	0.7
External interest	0.8	0.8	0.8	0.8	0.6	0.4
Transfers	2.9	3.3	2.3	2.6	2.4	3.2
Child allowances	1.3	1.6	0.9	1.1	0.8	0.9
Pension contributions	0.4	0.7	0.7	0.6	0.6	0.7
Payment of contingent liabilities	0.6	0.5	0.1	0.0	0.0	0.0
Other transfers	0.4	0.5	0.6	0.9	0.9	1.4
Transfer to Pension Fund	0.3	0.1	0.0	0.0	0.1	0.2
<b>Goods and services</b>	13.6	9.4	9.1	4.0	8.7	12.3
Health	1.2	1.2	0.7	0.3	1.2	1.3
Education	0.9	1.2	0.8	0.0	0.4	0.5
Other	11.5	7.0	7.7	3.6	7.1	10.5
<b>Capital expenditure &amp; net lending</b>	9.8	7.3	6.5	3.2	4.1	4.1
Of which: net lending	0.3	0.5	2.4	0.5	0.8	0.3
<b>Restructuring expenses</b>	0.0	0.0	0.1	0.0	0.0	0.0
<b>Overall deficit (accrual)(-)</b>	-16.8	-8.9	-8.6	-4.9	-3.9	-7.2
<b>Net change in total expenditure arrears</b>	6.3	-2.2	-0.7	1.5	-1.1	1.0
<b>Overall deficit (cash) (-)</b>	-10.5	-11.0	-9.3	-3.4	-5.0	-6.2
<b>Actual/Identified Financing</b>	10.5	11.0	9.3	3.5	6.2	4.9
<b>Domestic financing</b>	4.0	0.5	2.8	2.7	2.6	-7.9
Banking system	3.4	0.4	2.2	2.0	2.5	-8.8
Central Bank of Armenia	3.8	0.4	1.4	2.4	2.2	-10.0
Rest of banking system	-0.4	0.1	0.8	-0.4	0.2	1.2
Nonbank	0.0	0.0	0.6	0.7	0.2	0.9
Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.3	0.7	0.2	0.9
<b>External financing</b>	6.5	10.5	6.5	0.8	3.6	12.8
Gross inflow	6.5	14.5	0.9	2.4	4.5	12.8
Amortization due	0.0	3.9	0.0	1.5	0.9	0.0
<b>Statistical discrepancy 4/</b>	0.0	0.0	0.0	0.1	1.2	-1.3
<b>Domestic deficit 5/</b>	-24.0	-10.3	-7.9	-2.3	-3.4	-5.2
<b>Nominal GDP (million drams)</b>	187,452	522,285	660,311	174,181	188,178	195,954
Seasonally adjusted						

Sources: Armenian authorities, and staff estimates.

1/ Consolidated accounts of the Republican government and the local authorities.

2/ For Q2 1996 includes dram 328 million and dram 326 million for the sale of embassy property to Greece and China, respectively.

3/ Grants of wheat and wheat flour and of olive oil. Also includes cash grants of \$2.9 million from the Netherlands and ECU 8 million from EU in 1996 Q4.

4/ Defined as the difference between the overall deficit obtained from above the line and total financing.

5/ Domestic deficit defined as total revenues (excluding grants) minus current expenditure, domestically financed capital expenditure and net arrears repayment.

Table 15. Armenia: Distribution of Tax Revenues in the Consolidated Budget, 1994-97

	1994		1995		1996				1997		
	Q1	Q2	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	
Tax revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Value-added tax	20.8	25.6	23.0	25.0	23.0	27.8	25.3	21.1	25.8	32.3	32.3
Excises	3.4	3.6	13.6	10.3	13.0	15.1	13.3	7.2	19.3	12.9	12.9
Enterprise profits tax	43.8	35.9	16.7	23.3	16.1	21.0	19.7	13.7	14.5	12.1	12.1
Personal income tax	9.3	10.3	11.0	9.8	11.0	10.0	10.3	11.4	11.1	9.7	9.7
Land tax	1.7	2.6	2.0	1.6	1.8	3.1	2.3	3.1	1.8	1.6	1.6
Customs duties	3.2	4.1	7.4	7.6	6.9	6.3	6.9	8.2	9.8	7.6	7.6
Payroll taxes	11.6	16.1	22.0	18.1	21.5	12.4	17.3	31.6	13.9	17.7	17.7
Other taxes	6.1	1.4	2.7	3.1	5.4	3.1	3.6	2.3	2.3	3.9	3.9
Presumptive income tax	0.0	0.2	0.7	0.7	0.7	0.4	0.6	0.7	0.7	0.9	0.9
Property tax	0.0	0.3	0.9	0.7	0.5	0.8	0.7	0.6	0.7	1.2	1.2

(In percent of total tax revenues)

Sources: Armenian authorities; and Fund staff estimates.

Table 16. Armenia: Distribution of Current Expenditure in the Consolidated Budget, 1994-97

	1994				1995				1996				1997			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Current expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Wages	5.4	12.0	17.1	9.8	20.9	17.1	15.2	9.8	24.8	14.6	14.6	14.6	14.6	24.8	14.5	12.6
Subsidies	37.5	4.4	1.4	0.5	0.1	1.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.5	1.1	1.9
Interest	5.7	14.3	9.1	7.3	8.3	9.1	7.3	22.9	7.9	13.3	13.3	13.3	13.3	7.9	7.1	4.9
Domestic interest	5.7	10.4	6.0	5.3	5.8	6.0	5.3	16.1	2.8	9.3	9.3	9.3	9.3	2.8	3.7	3.1
External interest	2.3	3.8	3.0	2.0	2.4	3.0	2.0	6.8	5.1	4.0	4.0	4.0	4.0	5.1	3.3	1.8
Transfers	11.7	27.6	26.2	20.7	27.5	26.2	26.9	20.7	36.6	24.7	24.7	24.7	24.7	36.6	27.5	28.0
Pension and social safety net	8.9	24.2	23.7	17.3	25.0	23.7	25.8	17.3	30.2	22.2	22.2	22.2	22.2	30.2	22.3	21.9
Payment of contingent liabilities	1.6	2.2	1.7	0.0	0.0	1.7	0.0	0.0	0.0	0.4	0.4	0.4	0.4	0.0	0.0	0.0
Other transfers	1.2	1.2	0.8	3.4	2.5	0.8	1.1	3.4	6.4	2.1	2.1	2.1	2.1	6.4	5.2	6.1
Goods and services	39.8	41.8	46.2	46.1	43.3	46.2	50.2	46.1	30.2	46.8	46.8	46.8	46.8	30.2	49.9	52.6
Health and education	6.1	11.4	6.4	8.1	8.5	6.4	7.0	8.1	2.5	7.5	7.5	7.5	7.5	2.5	9.0	7.4
Other	33.7	30.4	39.8	38.0	34.8	39.8	43.2	38.0	27.7	39.3	39.3	39.3	39.3	27.7	40.9	45.2

(In percent of total current expenditure)

Sources: Armenian authorities, and Fund staff estimates.

Table 17. Armenia: Pension and Employment Fund, 1994-1997 1/

	1995				1996				1997		
	1994	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3		
Total revenue and grants	3,638	4,114	4,929	6,284	6,622	21,949	6,931	5,888	8,962		
Total revenue	3,638	4,114	4,929	6,284	6,622	21,949	6,931	5,758	8,642		
Contributions from payroll	3,618	3,865	4,689	5,386	5,504	19,444	6,835	5,193	6,045		
State payroll	905	984	1,321	1,271	1,526	5,102	999	1,287	1,476		
From employer	802	950	1,283	1,223	1,467	4,923	965	1,221	1,420		
From employee	103	33	39	47	59	179	34	66	56		
Enterprise payroll	2,713	2,881	3,367	4,115	3,978	14,342	5,836	3,906	4,569		
Self-employed and agriculture	20	56	69	28	43	196	96	81	1,459		
Other Revenue	-	193	171	871	1,075	2,309	0	484	1,137		
Total expenditure	3,418	4,116	4,891	6,220	6,750	21,977	6,937	5,936	8,761		
Pensions	3,168	3,928	4,482	5,911	6,474	20,796	5,735	5,705	8,131		
Unemployment compensations	70	151	150	275	275	851	236	186	295		
Interest on bank credit	-	0	0	0	0	0	895	0	0		
Errors and omissions	180	37	259	35	0	300	72	45	335		
Overall deficit (accrual) (-)	220	-2	38	64	-128	-28	-7	-48	200		
Overall deficit (cash) (-)	220	-2	38	64	-128	-28	-7	-48	200		
Financing	-220	2	-38	-64	128	28	7	48	-200		
Central Bank of Armenia	-576	66	-35	-84	24	-29	52	34	-163		
Rest of banking system	-153	-64	-3	20	70	23	-45	14	-37		
State Government	510	0	0	0	0	0	0	0	0		
Other	-	0	0	0	34	34	0	0	0		

(In millions of drams)

Sources: Armenian authorities, and staff estimates.

1/ The Pension Fund was created in August 1991, and was augmented in March 1992 by the incorporation of the Employment Fund.

Table 18. Armenia: Pension and Employment Fund, 1994-1997 1/

	1994	1995				1996				1997		
		Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q1	Q2	Q3
		(In percent of GDP)										
<b>Total revenue</b>	1.94	2.83	3.31	3.51	3.54	3.32	3.98	3.06	4.41			
Contributions from payroll	1.93	2.66	3.15	3.01	2.94	2.94	3.92	2.76	3.09			
State payroll	0.48	0.68	0.89	0.71	0.82	0.77	0.57	0.68	0.75			
From employer	0.43	0.65	0.86	0.68	0.78	0.75	0.55	0.65	0.72			
From employee	0.06	0.02	0.03	0.03	0.03	0.03	0.02	0.04	0.03			
Enterprise payroll	1.45	1.98	2.26	2.30	2.13	2.17	3.35	2.08	2.33			
Self-employed and agriculture	0.01	0.04	0.05	0.02	0.02	0.03	0.05	0.04	0.74			
Other revenue	0.00	0.13	0.11	0.49	0.57	0.35	0.00	0.26	0.58			
<b>Total expenditure</b>	1.83	2.83	3.28	3.48	3.61	3.33	3.98	3.15	4.47			
Pensions	1.69	2.70	3.01	3.30	3.46	3.15	3.29	3.03	4.15			
Unemployment compensation	0.04	0.10	0.10	0.15	0.15	0.13	0.14	0.10	0.15			
Interest on bank credit	0.00	0.00	0.00	0.00	0.00	0.00	0.51	0.00	0.00			
Errors and omissions	0.10	0.03	0.17	0.02	0.00	0.05	0.04	0.02	0.17			
<b>Overall deficit (accrual)</b>	0.12	-0.19	0.03	0.04	-0.07	0.00	0.00	-0.03	0.10			
<b>Overall deficit (cash)</b>	0.12	-0.19	0.03	0.04	-0.07	0.00	0.00	-0.03	0.10			
<b>Financing</b>	-0.12	0.19	-0.03	-0.04	0.07	0.00	0.00	0.03	-0.10			
Central Bank of Armenia	-0.31	0.09	-0.02	-0.05	0.01	0.00	0.03	0.02	-0.08			
Rest of banking system	-0.08	0.01	0.00	0.01	0.04	0.00	-0.03	0.01	-0.02			
State Government	0.27	0.09	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
Other sources	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
<b>Memorandum item:</b>												
GDP (in millions of drams)	187,049	522,284	145,501	148,932	178,897	660,311	174,181	188,178	195,954			
Seasonally adjusted												

Sources: Armenian authorities; and Fund staff estimates.

1/ The Pension Fund was created in August 1991, and was augmented in March 1992 by the incorporation of the Employment Fund.



Table 19. Armenia: Pension Recipients and Average Pensions

	1994		1995		1996			1997			
	Dec.		Dec.		Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
Total	636,073		641,852		628,454	615,055	611,083	607,111	601,233	595,354	607,111
Old age pensioners	466,590		458,989		408,772	358,554	404,975	451,396	449,859	448,322	435,509
Handicapped	104,643		111,049		110,121	109,193	104,795	100,396	100,530	100,663	100,396
Lost provider	45,643		35,822		36,108	36,214	37,947	39,679	39,723	39,767	36,979
Other	19,197		35,992		73,454	111,094	63,366	15,640	11,121	6,602	34,227
	(Number of recipients in thousands)										
Total	1,460		2,359		2,567	2,775	2,966	3,156	3,302	3,448	3,114
Old age pensioners	1,404		2,308		2,548	2,788	2,960	3,131	3,282	3,432	3,164
Handicapped	1,442		2,411		2,457	2,503	2,424	2,344	2,773	3,202	3,093
Lost provider	2,070		3,007		3,154	3,300	3,347	3,394	3,349	3,304	3,794
Other	1,320		1,547		2,549	2,829	3,673	8,486	8,725	9,153	2,630
	(Average pensions in drams per month)										

Source: Armenian authorities.

Table 20. Armenia: Unemployment Benefits, 1994-97

	1994	1995				1996				1997		
		Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3			
Average benefit (drams per month)	299	1,358	1,930	1,899	2,005	2,178	2,003	2,423	2,413	2,366		
Official unemployment (number of people)	102,608	102,842	139,400	149,400	152,600	159,300	150,300	161,400	166,800	169,800		
Benefit recipients (number of people)	22,516	34,610	43,100	50,000	41,700	40,800	43,900	32,200	28,900	25,300		
Percentage of officially unemployed receiving benefits (in percent of official unemployed)	22	34	31	33	27	26	29	20	17	15		

Sources: Armenian authorities.

Table 21. Armenia: Banking Sector Loans, 1994-97

	1994		1995		1996			1997				
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	
Industry	574	2,742	4,709	4,245	4,752	4,003	2,590	2,860	3,060			
Agriculture and processing industry	721	865	677	607	334	243	706	784	838			
Construction	98	211	145	217	197	225	213	207	221			
Transport and communications	25	42	108	99	58	315	38	109	117			
Supply and trade	557	478	295	210	166	128	385	315	337			
Private sector 1/	1,940	5,101	4,624	4,235	4,751	5,943	4,651	4,721	5,052			
Other sectors 2/	6,087	5,539	4,560	4,678	4,697	4,734	4,764	5,349	6,126			
Arrears to banks 3/	3,515	21,889	23,452	24,897	16,070	9,772	23,551	23,874	19,852			
Long-term investments	3	94	97	97	97	97	94	97	97			
Total	13,520	36,960	38,668	39,285	31,122	25,460	36,993	38,318	35,700			
					(In percent of total loans)							
Industry	4	7	12	11	15	16	7	7	9			
Agriculture and processing industry	5	2	2	2	1	1	2	2	2			
Construction	1	1	0	1	1	1	1	1	1			
Transport and communications	0	0	0	0	0	1	0	0	0			
Supply and trade	4	1	1	1	1	1	1	1	1			
Private sector 1/	14	14	12	11	15	23	13	12	14			
Other sectors 2/	45	15	12	12	15	19	13	14	17			
Arrears to banks 3/	26	59	61	63	52	38	64	62	56			
Long-term investments	0	0	0	0	0	0	0	0	0			
Total	100	100	100	100	100	100	100	100	100			

Source: Central Bank of Armenia.

- 1/ Includes households.
- 2/ Includes foreign exchange loans.
- 3/ Includes overdue loans and overdue interest.

Table 22. Armenia: Commercial Banks' Interest Rates for Loans and Deposits in Dram, U.S. Dollars, and Russian Rubles, 1994 - 1997  
(Simple monthly uncompound interest rates)

	1994			1995			1996			1997		
	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
<b>Dram</b>												
One-month Deposit	9.50	4.75	3.00	3.00	5.42	3.67	3.00	2.67	2.38	3.83	2.17	3.50
One-month Loan	21.40	11.67	8.97	7.17	7.42	7.08	6.75	5.42	4.42	4.50	4.50	5.08
Three-month Deposit	11.50	9.33	3.42	2.50	4.08	3.42	3.92	2.00	2.92	1.67	2.08	2.67
Three-month Loan	18.70	14.97	9.03	8.17	6.58	6.58	7.25	5.33	5.25	6.00	5.58	6.00
Six-month Deposit	11.80	9.90	4.23	4.79	3.31	3.58	3.50	3.83	3.50	2.92	2.33	0.83
Six-month Loan	22.00	15.40	7.15	4.11	5.11	6.00	4.83	...	4.33	3.83	6.58	3.92
<b>Russian Ruble 1/</b>												
One-month Deposit	10.50	...	...	...	5.50	3.67	3.83	...	...	...	...	4.05
One-month Loan	15.90	...	20.00	...	...	10.50	9.33	...	...	...	...	7.50
Three-month Deposit	12.00	10.00	6.10	5.60	6.08	3.58	3.42	...	...	...	...	3.86
Three-month Loan	14.10	17.00	15.00	...	...	...	...	...	...	...	...	7.50
Six-month Deposit	12.80	10.00	6.25	7.42	4.17	4.17	4.17	...	...	...	...	3.03
Six-month Loan	14.20	17.00	17.17	...	...	...	...	...	...	...	...	...
<b>U.S. Dollars 1/</b>												
One-month Deposit	3.50	1.50	1.23	1.54	2.35	2.83	2.24	1.96	2.40	2.75	...	2.36
One-month Loan	8.00	7.00	7.75	5.83	6.27	4.83	3.64	6.18	3.68	5.58	...	4.41
Three-month Deposit	3.90	1.90	1.75	2.29	2.65	3.25	2.91	2.96	2.74	2.42	...	2.49
Three-month Loan	9.10	9.00	5.71	5.71	5.63	5.58	6.27	6.08	4.47	4.42	...	4.26
Six-month Deposit	3.90	2.60	2.15	2.81	1.98	2.42	3.42	2.50	2.25	2.33	...	1.37
Six-month Loan	9.90	9.00	4.39	3.21	3.52	4.42	3.96	4.22	5.03	3.33	...	3.77

Source: Central Bank of Armenia.

1/ No figure is given if a transaction did not occur during the month.

Table 23. Armenia: Commodity Composition of Trade

	1994	1995	1996	1997 1/
	(In percent of total)			
<b>Total Exports 2/</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Food products	5.5	5.0	3.9	8.9
Mineral and chemical products	13.5	17.3	9.0	9.2
Plastics, leather, wood, textiles, footwear	15.3	10.0	7.2	9.3
Jewelery	34.4	33.1	48.3	22.6
Non-precious metals, machines, other products	26.1	27.9	29.7	42.2
Citizen's trade	0.0	0.0	1.9	7.8
<b>Total Imports 3/</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Food products	42.1	33.5	32.4	27.2
Mineral and chemical products	42.6	41.9	28.5	33.3
Plastics, leather, wood, textiles, footwear	1.5	2.6	4.6	5.2
Jewelery	8.9	4.3	15.2	5.2
Non-precious metals, machines, other products	4.9	17.7	12.9	15.0
Citizen's trade	0.0	0.0	6.4	14.1

Source: State Department of Statistics.

1/ First three quarters of the year.

2/ Does not include price adjustments associated with clearing exports to Turkmenistan.

3/ Does not include imports associated with humanitarian aid.

Table 24. Armenia: Direction of Trade

	1994	1995	1996				Year	1997		
			Q1	Q2	Q3	Q4		Q1	Q2	Q3
(In millions of U.S. dollars)										
Total Exports	209.3	270.9	42.5	74.2	90.3	83.3	290.3	36.6	55.7	61.0
CIS	145.3	165.7	22.9	20.7	32.8	51.7	128.1	13.1	17.6	24.0
Russia	92.8	88.3	18.7	14.3	25.5	37.6	96.1	10.5	12.8	18.0
Clearing trade	26.9	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-clearing trade	65.9	85.0	18.7	14.3	25.5	37.6	96.1	10.5	12.8	18.0
Turkmenistan	43.7	67.2	2.3	2.9	2.7	9.6	17.5	0.2	0.2	1.0
Other CIS	8.9	10.2	1.9	3.5	4.6	4.5	14.5	2.4	4.6	5.0
Non-CIS	64.0	105.2	19.6	52.0	55.1	29.9	156.6	23.5	38.1	37.0
Belgium	20.8	30.6	7.5	14.2	11.3	11.8	44.8	9.8	13.8	12.0
Germany	7.1	10.0	0.1	1.3	0.9	1.4	3.7	1.0	2.0	2.0
Iran	16.1	35.1	6.7	11.0	13.8	8.4	39.9	6.9	11.3	11.0
Other non-CIS	20.0	29.5	5.3	25.5	29.1	8.3	68.2	5.8	11.0	12.0
Citizen's trade	...	...	...	1.5	2.4	1.7	5.6	...	...	...
Total Imports 1/	401.2	672.9	157.4	204.5	233.3	260.6	855.8	197.9	219.7	212.0
CIS	219.6	334.0	59.7	59.4	89.9	68.7	277.7	69.3	68.2	69.0
Russia	110.4	133.7	17.3	32.8	48.5	26.8	125.4	29.2	35.3	30.0
Turkmenistan	69.4	129.2	23.9	12.3	24.4	25.7	86.3	31.4	19.1	24.0
Other CIS	39.7	71.1	18.5	14.3	17.0	16.2	66.0	8.7	13.8	15.0
Non-CIS	181.7	338.9	97.7	137.8	127.1	160.6	523.2	128.6	151.5	143.0
France	10.7	16.0	2.4	1.5	1.5	6.7	12.1	3.1	6.3	6.0
Germany	6.9	11.0	2.8	1.5	3.9	9.1	17.3	1.8	4.1	10.0
Iran	42.5	90.0	38.0	43.8	35.6	32.3	149.7	22.9	27.8	18.0
USA	96.1	114.0	18.3	45.2	25.2	14.9	103.6	28.0	41.1	20.0
Other non-CIS	25.4	107.9	36.2	45.8	60.9	97.6	240.5	72.8	72.2	89.0
Citizen's trade	...	...	...	7.3	16.3	31.3	54.9	...	...	...
(In percent of total exports)										
Total Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
CIS	69.4	61.2	53.9	27.9	36.3	62.1	44.1	35.8	31.5	39.3
Russia	44.3	32.6	44.0	19.3	28.2	45.1	33.1	28.7	23.0	29.5
Clearing trade	12.9	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-clearing trade	31.5	31.4	44.0	19.3	28.2	45.1	33.1	28.7	23.0	29.5
Turkmenistan	20.9	24.8	5.4	3.9	3.0	11.5	6.0	0.5	0.4	1.6
Other CIS	4.3	3.8	4.5	4.7	5.1	5.4	5.0	6.6	8.2	8.2
Non-CIS	30.6	38.8	46.1	70.1	61.0	35.9	53.9	64.2	68.5	60.7
Belgium	9.9	11.3	17.6	19.1	12.5	14.2	15.4	26.8	24.8	19.7
Germany	3.4	3.7	0.2	1.8	1.0	1.7	1.3	2.7	3.6	3.3
Iran	7.7	13.0	15.8	14.8	15.3	10.1	13.7	18.9	20.3	18.0
Other non-CIS	9.6	10.9	12.5	34.4	32.2	10.0	23.5	15.8	19.8	19.7
Citizen's trade	...	...	...	2.0	2.7	2.0	1.9	...	...	...
(In percent of total imports)										
Total Imports 1/	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
CIS	54.7	49.6	37.9	29.0	38.5	26.4	32.4	35.0	31.0	32.5
Russia	27.5	19.9	11.0	16.0	20.8	10.3	14.7	14.8	16.1	14.2
Turkmenistan	17.3	19.2	15.2	6.0	10.5	9.9	10.1	15.9	8.7	11.3
Other CIS	9.9	10.6	11.8	7.0	7.3	6.2	7.7	4.4	6.3	7.1
Non-CIS	45.3	50.4	62.1	67.4	54.5	61.6	61.1	65.0	69.0	67.5
France	2.7	2.4	1.5	0.7	0.6	2.6	1.4	1.6	2.9	2.8
Germany	1.7	1.6	1.8	0.7	1.7	3.5	2.0	0.9	1.9	4.7
Iran	10.6	13.4	24.1	21.4	15.3	12.4	17.5	11.6	12.7	8.5
USA	23.9	16.9	11.6	22.1	10.8	5.7	12.1	14.1	18.7	9.4
Other non-CIS	6.3	16.0	23.0	22.4	26.1	37.5	28.1	36.8	32.9	42.0
Citizen's trade	...	...	...	3.6	7.0	12.0	6.4	...	...	...

Source: State Department of Statistics; and staff estimates.

1/ Imports are on fob basis for 1994 and 1995 and on cif basis for 1996 and 1997.

Table 25: Summary External Debt Data, 1994-1997

	1994	1995	1996	1997		
				Q1	Q2	Q3
(In millions of US dollars)						
<b>Total external debt outstanding</b>	<b>200.2</b>	<b>371.0</b>	<b>613.8</b>	<b>617.4</b>	<b>668.5</b>	<b>734.6</b>
Multilateral	45.6	208.1	352.5	350.7	376.5	424.0
Bilateral	154.6	167.2	199.6	192.1	202.7	204.1
Commercial	0.0	0.0	61.7	74.6	89.3	106.5
of which:						
Public and publicly-guaranteed	200.2	375.3	577.1	567.8	608.7	662.6
Concessional 1/	4.5	103.2	249.9	247.1	280.2	324.2
<b>Debt service payments due 2/</b>	<b>7.8</b>	<b>62.7</b>	<b>74.3</b>	<b>12.5</b>	<b>21.6</b>	<b>15.4</b>
Multilateral	0.6	4.1	7.4	2.0	4.2	2.5
Bilateral	7.2	58.6	65.8	8.9	8.8	8.7
Commercial	0.0	0.0	1.1	1.7	8.6	4.2
<b>Amortization payments due</b>	<b>0.6</b>	<b>50.1</b>	<b>53.5</b>	<b>7.7</b>	<b>15.0</b>	<b>10.2</b>
Multilateral	0.0	0.0	0.0	0.0	2.0	0.0
Bilateral	0.6	50.1	52.7	7.1	7.1	7.1
Commercial	0.0	0.0	0.8	0.6	5.9	3.0
<b>Interest payments due</b>	<b>7.2</b>	<b>12.6</b>	<b>20.7</b>	<b>4.8</b>	<b>6.6</b>	<b>5.2</b>
Multilateral	0.6	4.1	7.4	2.0	2.3	2.5
Bilateral	6.6	8.5	13.1	1.7	1.7	1.5
Commercial	0.0	0.0	0.3	1.1	2.6	1.2
(In percent of exports of goods and nonfactor services)						
<b>Debt service payments due</b>	<b>3.0</b>	<b>20.6</b>	<b>20.2</b>	<b>24.1</b>	<b>28.2</b>	<b>18.2</b>
Multilateral	0.2	1.4	2.0	3.8	5.5	3.0
Bilateral	2.8	19.3	17.9	17.1	11.5	10.2
Commercial	0.0	0.0	0.3	3.2	11.2	5.0

Source: Armenian authorities and Fund staff estimates.

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

2/ On total external debt.

Table 26. Armenia: Incorporated and Partially Privatized Enterprises, 1994-97

	1994	1995	1996	1997
Number of state-owned enterprises existing prior to 1992				
<i>Of which</i> : Small				
Medium and Large				
Total				
				10,197
				2,000
				12,197
Number of incorporated and partially privatized enterprises (in each year)				
<i>Of which</i> : Small				
Medium and Large				
Total				
	257	1,574	2,132	2,058
	...	240	613	396
	257	1,814	2,745	2,454
Number of incorporated and partially privatized enterprises (cumulative)				
<i>Of which</i> : Small				
Medium and Large				
Total				
	257	1,831	3,963	6,021
	...	240	853	1,250
	257	2,071	4,816	7,271
Share of incorporated and partially privatized enterprises in total (in percent)				
<i>Of which</i> : Small				
Medium and Large				
Total				
	2.1	14.9	22.5	59.0
	2.5	15.4	20.9	62.5
	...	12.0	30.7	59.6

Source: Armenian authorities.



Table 27. Armenia: Arrears to Banks, 1994-97

	1994			1995			1996			1997		
	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
Total	10,914	12,843	15,527	17,675	21,889	23,452	24,897	16,070	9,772	10,190	11,053	6,554
Arrears on bank loan repayments	4,730	4,407	5,197	5,765	7,763	8,893	10,143	6,378	8,258	1,449	1,878	1,090
Arrears on interest payments to banks	6,184	8,436	10,330	11,910	14,126	14,559	14,754	9,692	1,514	8,741	9,175	5,464
	(In millions of dram)											
	(Percentage change from previous quarter)											
Total	40	18	21	14	24	7	6	-35	-39	4	8	-41
Arrears on bank loan repayments	96	-7	18	11	35	15	14	-37	29	-82	30	-42
Arrears on interest payments to banks	12	36	22	15	19	3	1	-34	-84	477	5	-40

Source: Central Bank of Armenia.





