

**EXECUTIVE
BOARD
MEETING**

EBS/16/120
Supplement 1

November 21, 2016

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Armenia—Fourth Review Under the Extended Arrangement and Request for Modification of Performance Criteria—Informational Annex**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Wednesday, December 7, 2016
Publication:	Yes*
Questions:	Mr. Samiei, MCD (ext. 36356) Mr. Rodriguez, MCD (ext. 36590)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Thursday, December 1, 2016—WTO After Board Consideration—European Bank for Reconstruction and Development, European Commission, Organisation for Economic Cooperation and Development

*The authorities have indicated that they consent to the Fund's publication of this paper.



REPUBLIC OF ARMENIA

FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

November 21, 2016

Prepared By

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

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FUND RELATIONS

(September 30, 2016)

Membership Status:

Joined 05/28/1992; Article VIII

General Resources Account:

	SDR Million	Percent of Quota
Quota	128.80	100.00
Fund holdings of currency	298.49	231.75
Reserve Tranche Position	0.00	0.00

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	87.99	100.00
Holdings	0.29	0.33

Outstanding Purchases and Loans:

	SDR Million	Percent of Quota
ECF Arrangements	131.74	102.28
Extended Arrangements	169.69	131.74

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	03/07/2014	05/06/2017	82.21	50.87
ECF	06/28/2010	07/02/2013	133.40	133.40
EFF	06/28/2010	06/24/2013	133.40	133.40

Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Principal	10.61	36.88	45.17	52.83	54.63
Charges/interest	0.46	1.73	1.51	1.45	1.10
Total	11.07	38.60	46.68	54.27	55.73

Safeguards Assessment

An update safeguards assessment was concluded in August 2014 with respect to the Extended Fund Facility approved in March 2014. The assessment found that the CBA maintains safeguards in its financial reporting practices, external audit mechanism, and internal audit function. However, the assessment recommended amendments to the central bank law to strengthen the CBA's governance arrangements, and also to provide the CBA with marketable, interest-bearing government securities to cover its losses. In addition, the assessment noted that the CBA has investments in enterprises engaged in financial sector development and infrastructure, including a credit card processing company, a mortgage finance company, and a cash collection agency. In its audited financial statements, the CBA now presents a consolidated position inclusive of these enterprises, and is in the process of implementing the safeguards recommendation to provide details on risks, risk-mitigation efforts, and divestment strategies.

The CBA and Ministry of Finance (MoF) have made progress in implementing the recommendations of the most recent Safeguards Assessment, but further work remains. The CBA has adopted a charter for its board members to clarify roles and responsibilities. The CBA has investments in enterprises engaged in financial sector development and infrastructure, including a credit card processing company, a mortgage finance company, and a cash collection agency. The CBA has worked with its external auditors to present a consolidated position inclusive of these enterprises and an annex to its annual report describing the rationale for the investments and management of the enterprises. In the future, the annex should cover risks, risk-mitigation efforts, or divestment strategies. Also, pending legislation to provide the CBA with marketable, interest-bearing government securities to cover losses has not advanced in parliament.

Exchange Rate Arrangement

The de jure arrangement is "free floating." The de facto arrangement was reclassified to "floating" from a "stabilized arrangement," effective March 3, 2009. Following a sequence of interventions to rebuild reserves in the last three quarters of 2013, the de facto exchange rate arrangement was reclassified from floating to crawl-like arrangement, effective March 12, 2013. More recently, the de facto exchange rate arrangement has been reclassified to floating from a crawl-like arrangement, effective November 4, 2014. The official exchange rate is quoted daily as a weighted average of the buying and selling rates in the foreign exchange market.

Armenia maintains one multiple currency practice, which arises from a 2007 agreement between the MoF and CBA to settle some budgetary transactions at an agreed accounting ER throughout the fiscal year. The authorities are not requesting and staff does not recommend the Board's approval to maintain this MCP. A previous MCP related to the conversion of Funds to make a September 2015 Eurobond coupon payment has expired.

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

Article IV Consultations

The 2014 Article IV consultation with Armenia was concluded on December 22, 2014. Armenia is subject to a 24-month consultation cycle.

FSAP Participation and ROSCs

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

Resident Representative

Ms. Teresa Daban Sanchez, since August 2013.

Technical Assistance

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

Armenia: Technical Assistance from the Fund, 2010–16

Subject	Type of Mission	Timing	Counterpart
Fiscal Affairs Department (FAD)			
Tax administration	Short-term	March –May 2010	MoF, SRC
Tax administration	Short-term	August - November 2010	MoF, SRC
Tax administration	Short-term	September 2010	MoF, SRC
Tax administration	Short-term	November 2010	MoF, SRC
Tax policy	Short-term	February 2011	MoF
Tax administration	Short-term	February–March 2011	MoF, SRC
Tax administration	Short-term	May–June 2011	MoF, SRC
Tax policy (mining)	Short-term	June 2011	MoF
Budget process	Short-term	October 2011	MoF
Public Financial Management	Short-term	November 2012	MoF
Tax Administration	Short-term	April 2013	MoF, SRC
Tax Administration	Short-term	September 2013	MoF, SRC
Fiscal Risk	Short-term	October 2013	MoF, SRC
Tax Administration	Short-term	December 2013	MoF, SRC
Public Finance Management	Short-term	March 2014	MoF
Fiscal Risk	Short-term	November 2014	MoF
Tax administration (LTI)	Short-term	April 2015	MoF
Customs Administration	Short-term	May 2015	MoF
Public Financial Management	Short-term	May-June-September 2015, February, May 2016	MoF
Tax Policy	Short-term	November 2015	MoF
Legal Department			
Banking Law	Short-term	June 2011	CBA
AML/CFT	Short-term	Various	MoF
Monetary and Capital Markets Department			
Contingency planning, crisis preparedness	Short-term	March–April 2010	CBA
Workshop on Inflation Targeting (with IMF Research Dept.)	Workshop	April–May 2011	CBA
Bank resolution framework	Short-term	June 2011	CBA
Medium-term debt management strategy	Short-term	December 2011	CBA

Armenia: Technical Assistance from the Fund, 2010–16 (concluded)			
FSAP update	Short-term	February 2012	CBA
Inflation targeting (with IMF Research Dept.)	Short-term	February-March 2012	CBA
Inflation targeting	Short-term	November 2012	CBA
Inflation targeting	Short-term	January 2013	CBA
Bank prudential framework	Short-term	April 2013	CBA
Monetary and Foreign Exchange Policy	Short-term	June 2013	CBA
Safeguard Assessment	Short-term	March 2014	CBA
Central Bank Communication	Short-term	April 2014	CBA
Inflation Targeting	Short-term	April 2014	CBA
Inflation Targeting	Short-term	April, November 2015	CBA
Inflation Targeting	Short-term	March, September 2016	CBA
Statistics Department			
National accounts	Short-term	September 2010	NSS
BOP and external debt statistics	Short-term	October 2011	CBA
National accounts	Short-term	April 2012	NSS
Monetary statistics	Short-term	April 2012	CBA
National accounts	Short-term	May 2012	NSS
Monetary statistics	Short-term	October 2012	CBA
Construction Price Index	Short-term	September 2013	NSS

WORLD BANK AND IMF COLLABORATIONS—JMAP IMPLEMENTATION

(As of October 15, 2016)

Title	Products	Provisional timing of missions	Expected delivery date (tentative)
<p>World Bank's Country Partnership Strategy for Armenia (2013-17)</p> <p>1. Bank program in the next 12 months</p>	<p>Country Partnership Strategy Performance and Learning Review for Armenia (extending the CPS until 2018)</p> <p>Selected Ongoing and New Operations</p> <p>Public Sector Modernization Project II (US\$9m)</p> <p>Tax Administration Modernization Project (US\$12 m)</p> <p>DPO series to support competitiveness and ensure sustainability (US\$ 197m)</p> <p>New Health Project for Disease Prevention and Control (US\$30m)</p> <p>Public Sector Modernization (III) and PFM project (US\$26.5 mln)</p>	<p>Submitted to the World Bank's Board of Directors for consideration</p> <p>Semi Annual</p> <p>Semi Annual</p> <p>Quarterly</p> <p>Semi Annual</p>	<p>May 2016</p> <p>Project Implementation started in Sept. 2010 and will be closed in January 2017</p> <p>WB Board approval July 2012, effective since Dec. 2012, closing date is December, 2017;</p> <p>Board date for DPO-2 (\$75 mln) : November 12, 2014 DPO-3 (\$50 mln): December 7, 2015 DPO-4 (\$50 mln)-- December 2016</p> <p>WB Board approved – March 2013</p> <p>Board Date –Sept. 30 , 2015, effective since March 2016</p>

Title	Products	Provisional timing of missions	Expected delivery date (tentative)
	<p>Power Sector Financial Recovery Project (\$ 32 mln)</p> <p>Analytic Work</p> <p>Programmatic Poverty work</p> <p>Programmatic Fiscal work (fiscal incidence assessment, public sector wage assessment, review of social assistance programs)</p> <p>PER on Quasi-fiscal activities, Macro-Fiscal sustainability and fiscal Subsidies</p> <p>New Country Economic Memorandum on Drivers of Dynamism</p> <p>Assessment of EEU membership on Armenia's economy</p> <p>Promoting Productive employment in Armenia – a note on labor market activation</p> <p>Systematic Country Diagnoses (SCD)</p> <p>Selected Technical Assistance</p> <p>IDF grant for guillotine exercise</p> <p>Macro-monitoring</p>	<p>Quarterly</p> <p>Continuous</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>On-going</p>	<p>WB Board approved – April 28, 2016</p> <p>Annual Series, 2015 report Delivered in June 2015 and Disseminated in November 2015.</p> <p>The 2015 report was finished June 2015, disseminated in November, 2015</p> <p>Finalized in June, 2016, dissemination – by November 2016</p> <p>Finalized in June 2015,</p> <p>Finalized and disseminated in Dec 2014, Policy workshop -in December 2014</p> <p>Start – June 2016, delivery - June 2017</p> <p>Concept Note – in December 2016, delivery –June, 2017</p> <p>Start: 2013, closed in June 2015</p> <p>Start: January 2016 End: June 2016</p>

Title	Products	Provisional timing of missions	Expected delivery date (tentative)
	<p>One-stop shop for providing construction permits</p> <p>CGE model-based technical assistance to simulate trade and growth projections (\$120K)</p> <p>Technical Assistance on Tax Policy (\$150K)</p> <p>Technical Assistance on Tax Policy (75K)</p>		<p>Start: 2013, closed in June 2015</p> <p>Start October 2015, delivered June 2016</p> <p>Start: July 2015 End: June 2016,</p> <p>Start: June 2016, End: June 2017</p> <p>Mobilized to support MoF for Tax Code preparation and discussion,</p>
2. IMF work program in the next 12 months	<p>Fifth EFF Review and A-IV Consultation</p> <p>Selected Technical Assistance/Training</p> <p>FAD (follow-up on Pub. Financial Management)</p> <p>MCM/RES (Inflation targeting)</p>	<p>March 2017</p> <p>TBD</p> <p>TBD</p>	<p>May 2017</p> <p>TBD</p> <p>TBD</p>

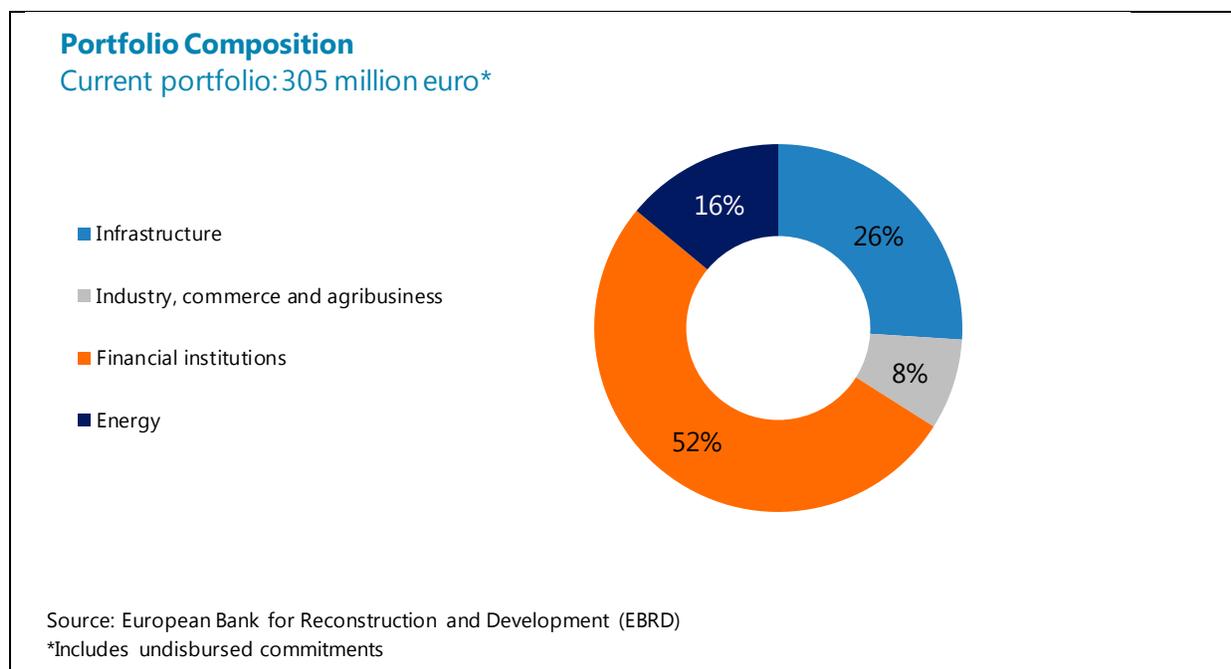
RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

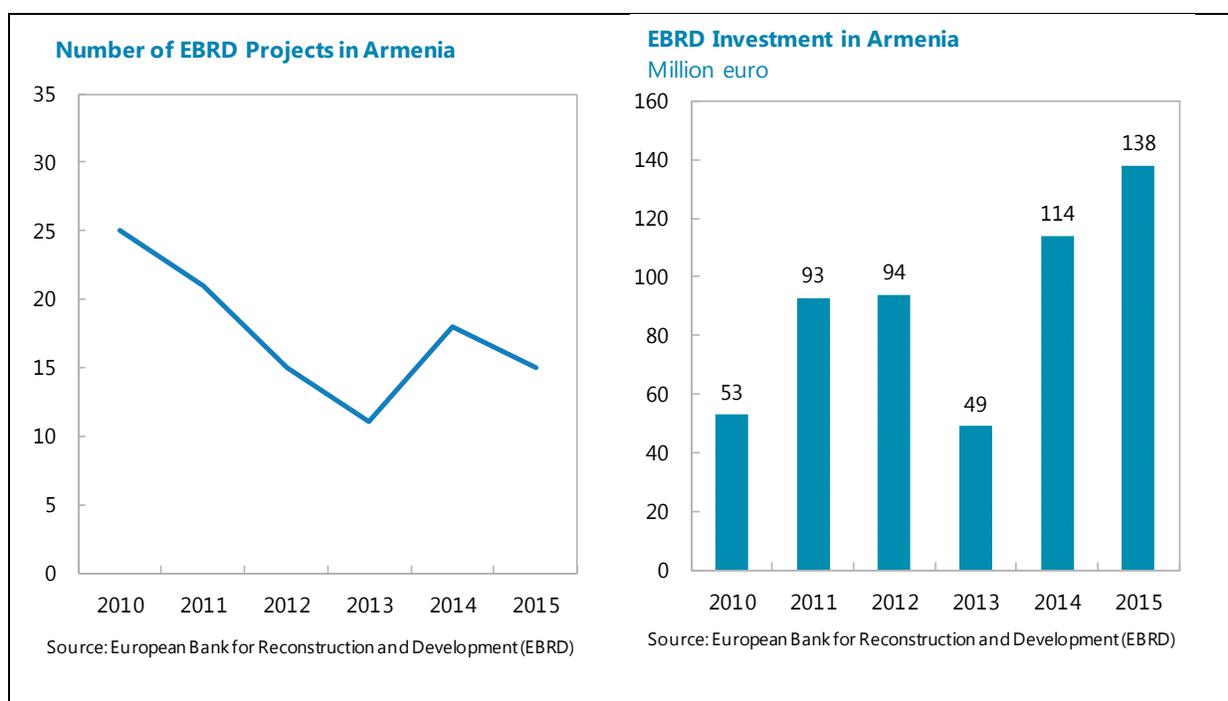
(As of October 15, 2016)

EBRD Scorecard

1. The EBRD is the largest single investor in Armenia. To date, the Bank has committed almost €1,067 million in over 153 projects in all major sectors of the economy.

EBRD Activity in Armenia to Date (last updated April 1 st 2016)	
153 Numbers of projects to date	€1,067 million Cumulative EBRD investment
€738 million Cumulative disbursements	88 percent Private sector share of portfolio





Milestone deals for the last 2 years

➤ ***EBRD and government of Armenia sign a contribution agreement on Armenia's participation in E5P***

2. In 2015 the EBRD and the Ministry of Energy and Natural Resources of Armenia have signed an agreement on Armenia's participation in the Eastern Europe Energy Efficiency and Environment Partnership (E5P). Armenia has already contributed € 250 K out of €1 million to E5P which will enable Armenia to access grant funds of €20 million for priority energy efficiency investments in the municipal sector. The E5P is a multi-donor fund providing grants to support energy efficiency projects that aim to improve energy efficiency and the environment in the Eastern Partnership countries. The main objective of the initiative is to use grants to leverage loans dedicated to municipal energy efficiency and environmental projects, for example the rehabilitation of water and wastewater systems, solid waste management, street lighting and the insulation of public buildings. E5P is part of the strategic response to energy issues, allowing municipal authorities to invest in projects that make the most of opportunities for energy savings. As a partnership, E5P also includes a strong commitment to policy dialogue, allowing partners to address policy issues in their efforts to find practical solutions to problems municipalities face when investing in energy efficiency measures.

➤ ***Yerevan Street Lighting project***

3. The Yerevan Street Lighting project (€ 3.6 million) signed in May 2015, will introduce energy efficient lighting technologies in the 28 streets of the City, along with modern control system to serve the wider city during the years to come. This project is an important landmark as it is the first project to benefit an E5P grant facility (€ 1.9 million) since the facility became operational in Armenia in March 2015.

➤ ***Kotayk and Gegharkunik Solid Waste management project***

4. In 2014–16 the EBRD provided a €5.5 million loan to Armenia to finance the construction of the country’s first European Union compliant solid waste landfill. The loan is complemented by a €3.5 million capital grant provided by the European Union Neighborhood Investment Facility (EU NIF) and €2 million capital grant provided by the Eastern Europe Energy Efficiency and Environment Partnership (E5P). The new landfill, to be located in the city of Hrazdan in Kotayk Province and managed by twelve participating municipalities of Kotayk and Gegharkunik regions – Hrazdan, Abovian, Charentsavan, Tsakhkadzor, Byureghavan, Yeghvard, Nor Hachn, Sevan, Vardenis, Martuni, Gavar and Chambarak – will be operating as a commercially sustainable unit with modern solid waste management systems, covering the collection and disposal of municipal solid waste. This will provide major environmental and social benefits for some 521,000 people in the area covered by the facility.

➤ ***Yerevan Solid Waste management project***

5. In 2015, the EBRD provided a €8 million loan to Armenia to finance the construction of a solid waste landfill in Yerevan that complies with EU regulations. The loan is co-financed by a €8 million credit line from the European Investment Bank and a capital grant of €8 million from the European Union Neighborhood Investment Facility (EU NIF) and capital grant of €2 million from the Eastern Europe Energy Efficiency and Environment Partnership (E5P).

6. The new landfill will meet international standards and operate as a commercially sustainable unit with modern solid-waste management systems, covering the collection and disposal of municipal solid waste. The facility, located on the outskirts of Yerevan, will provide major environmental and social benefits for the 1.1 million residents of the Armenian capital.

➤ ***Gyumri Urban Roads Project***

7. In 2016 the EBRD provided a €14.6 million loan to Armenia to finance the road rehabilitation and the street lighting modernization of Gyumri city. The project is expected to be co-financed with an investment grant in the total amount of up to EUR 7.3 million. The €2.65 million capex grant is co-financed from the EBRD Shareholder Special Fund (“SSF”) in 2016, while the rest amount €4.65 will be co-financed from SSF and E5P during the 2017-2018.

8. The project will enable the City of Gyumri to rehabilitate major streets and modernise street lighting including installation of new Light Emitting Diode (LED) luminaries, a control and monitoring system, together with pole and power cable replacements. The project will seek

to enhance the City's capacity to implement large scale infrastructure projects, carry out competitive tendering of works and monitor the technical implementation in a proper manner. In addition, the project will result in increased private sector participation and improved safety standards in the City.

➤ **Supporting consolidation in Armenia's banking sector**

9. In 2015 the EBRD made an equity investment of AMD 9.8 billion (equivalent to US\$ 20.3 million) for up to 22.7 per cent of shares in Inecobank, a specialist MSME and retail bank in Armenia. Inecobank used the proceeds of the EBRD investment to finance the acquisition of ProCredit Bank Armenia, another local bank oriented towards micro, small and medium-sized enterprises (MSMEs). The merged bank will become a leading MSME lender in the country, serving over 10,000 businesses and 200,000 individuals. This investment marked a milestone, providing an excellent platform for more consolidation in the Armenian banking sector and further improving standards of corporate governance. With a strong management team in place, a more efficient branch network and well-tested products and services, the combined bank will be able to provide Armenian MSMEs with better access to finance.

10. Later the EBRD invested US\$ 40 million in the acquisition of an equity stake in Ameriabank CJSC, a leading private bank in Armenia. This is the largest single-ticket equity deal the EBRD has signed in the region to date. As a first step the EBRD acquired a stake of around 20 percent for US\$ 30 million. The remaining US\$ 10 million will be used for future capital increases. The goal of the investment is to strengthen Ameriabank and prepare the bank for a future IPO.

➤ **EBRD launches SME Local Currency Program in Armenia**

11. In 2016 Armenia has renewed a Memorandum of Understanding with the EBRD to become eligible for lending to local small and medium-sized enterprises (SMEs) in local currency under a new EBRD facility. In parallel with access to affordable local currency funds, the country continues to commit itself to a reform program which will improve, broaden and deepen local currency and capital markets in Armenia. To achieve this goal, the authorities will promote a macroeconomic, regulatory and market environment that supports local currency borrowing and lending with a detailed reform package. The signing follows the approval of the EBRD's Local Currency Program for SMEs in its countries of operations to mitigate their exposure to exchange rate movements. It includes a new €500 million SME Local Currency Lending Facility that will combine EBRD capital and donor resources to provide eligible companies with access to affordable funding.

12. The development of local currency finance remains a challenge in most of the Bank's countries of operations, some of which are among the countries that have the highest exposures to exchange rate movements anywhere in the world. SMEs that sell their goods and services domestically in local currency, but borrow in foreign currency, are highly exposed to this currency risk.

13. The EBRD’s Local Currency and Local Capital Markets Initiative, launched in May 2010, aims to enhance the macroeconomic, regulatory and market framework to ensure long-term sustainable and liquid local currency markets. The initiative’s goal is to strengthen local capital markets and encourage the use of local currencies in the Bank’s countries of operations. In 2016 the EBRD signed 4 deals with the total amount of €7 million.

➤ ***EBRD’s Caucasus Energy Efficiency Program (CEEP)***

14. Developing both demand for and supply of energy efficiency investments through credit lines issued under CEEP, and extending its scope beyond corporates to include retail lending. Since 2013, six Armenian banks and two credit organizations have joined the program, signing about than USD 31.5 million for on-lending to industrial and residential EE sub-projects. More than USD 14 m has been disbursed already by CEEP participant banks to its customers.

15. The EBRD Sustainable Energy Portfolio since 2006 amounts €119.4 million of financing across 33 projects. The number broken down by sector below:

Armenia EBRD Sustainable Energy Portfolio, 2006–16	Total	2016 YTD
Corporate energy efficiency	12.5	0.0
Sustainable energy financing facilities (Energocredit)	22.6	3.6
Cleaner energy production	42	0.0
Renewable energy	25.3	0.0
Municipal infrastructure energy efficiency	16.9	1.4
Total	119.4	5.0

➤ ***Zvartnots International Airport***

16. In 2015 the EBRD participated in a landmark international syndication (USD 30 m) for Zvartnots International Airport which will provide significant new resources for further investment in Armenia.

➤ ***EBRD launches new Strategy for Armenia***

17. In 2015 EBRD has adopted a new strategy for Armenia under which it will over the next four years give priority to enhancing the competitiveness of the private sector, improving the business environment, developing local the capital markets and funding infrastructure development.

18. Armenia’s economic growth has slowed down this year as a result of the broader regional downturn which affects the country via reduced trade, remittances and investment flows. In addition, the depreciation of the Armenian dram and a decrease of foreign currency reserves have impacted the country’s economy.

19. To speed up economic growth and support the government’s ambitious reform program, which includes improving the business environment, the EBRD will focus on the following key priorities in its new strategy for Armenia:

- Enhancing private sector competitiveness: For Armenia’s small and open economy, a significant improvement in competitiveness is key to attracting investment. The EBRD will continue financing the private sector. The Bank will target assistance for improvements to the regulatory and administrative environment and strengthen its assistance to micro, small and medium-sized enterprises.
- Developing capital markets and promoting local currency financing: As the authorities roll out mandatory pension reforms, the majority of pension fund investments will be channeled in local currency. Success will largely depend on the emergence of a healthy supply of capital market issues on the local market, and enough different investors to create market liquidity. The EBRD stands ready to support the development of the local capital market.
- Developing public utilities: Armenia’s energy, transport and municipal infrastructure still needs much update. For this, it is important to increase private participation in public service provision. The Bank will support commercially viable energy and energy efficiency, transport and municipal service projects and engage in policy dialogue.

➤ **Advice for Small Businesses**

20. Through the Advice for Small Businesses, the EBRD delivered technical assistance and consulting services to over 1,200 local advisory projects and 50 international advisory projects since 2003, helping high quality companies (including a significant number of rural businesses) improve their financial reporting, management capacity and marketing. Within this effort, during the last three years, international advisory has provided international expertise to 15 dynamic corporates, which has been particularly effective in helping them design and execute business development strategies. Over the life of the program, nearly 30 per cent of ASB clients secured financing within one year, 57 per cent hired additional employees, and over 91 per cent increased turnover.

➤ **EBRD recent policy dialogue activities**

- Investment Council, a platform for policy dialogue between the Government and the private sector
- Assistance with regulatory framework on Armenian Post Bank
- TCs for shareholder’s and CEO’s on achieving robust capital structure and corporate governance
- Technical assistance and capacity building to improve the legal/regulatory frameworks for leasing and factoring

- MoU with Armenia to further lending to local SMEs in local currency and Action Plan with a focus on money markets and derivatives
- Assistance to CBA on bank consolidation process; jointly organized seminar for bank shareholders and CEO's
- Together with other donors coordinate to promote responsible mining and best practices through policy dialogue, including with NGOs, mining companies and the authorities.
- Preparation of background paper for policy dialogue for legislative changes aimed at enhancing the debt-taking capacity of Yerevan City.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ASDB)

(As of October 17, 2016)

1. **Armenia joined the AsDB in September 2005.** AsDB's first Country Partnership Strategy for Armenia for 2014–2018 (endorsed by AsDB's Board on 27 January 2015) focuses on three sectors: (i) transport, (ii) water supply and other municipal services, and (iii) energy. In August 2014, AsDB's Board approved the reclassification of Armenia for the purpose of access to ordinary capital resources and graduation from the Asian Development Fund resources, effective January 1, 2017.
2. **As of October 17, 2016, the AsDB cumulative sovereign lending amounted to \$910 million for 16 loans.** In 2015 AsDB approved a Results-Based Loan of \$88.5 million for the Seismic Safety Improvement Program. The program will support the government in seismic strengthening and renovation of priority school buildings and to improve seismic safety planning and management competencies.
3. **In 2014 AsDB approved a \$37 million loan for the Power Transmission Rehabilitation Project** to help the government diversify energy sources, and rehabilitate and upgrade electricity transmission and distribution networks. The Infrastructure Sustainability Support Program (\$49 million) was approved in August 2014 and helped improve road and water service provision through results-based public management and financing reforms. The program focused on critical expenditures, sustainability, and life-cycle costing to ensure investments in these two sectors are carefully prioritized and fully sustainable.
4. **In 2012 AsDB approved two public sector loans.** The Women's Entrepreneurship Support Sector Development Program, approved in October 2012, promotes gender-inclusive growth by improving the enabling environment and capacity of women entrepreneurs and micro, small, and medium-sized enterprises (MSMEs). The program includes two components: (i) a program loan (\$20 million) supporting reforms to improve the business environment for women; and (ii) a financial intermediation loan (\$20 million) through the German-Armenian Fund in which medium-term local currency loans will be made by participating financial institutions to MSMEs, with at least 50% of the loans going to women's MSMEs. In 2012, AsDB provided \$40 million as additional financing for the Water Sector and Sanitation Sector Project, approved in 2007, for improving access to safe, reliable, and sustainable services in 18 towns and 92 project villages, managed on commercial principles and with environmentally sound practices.
5. **In 2011, ADB approved a \$400 million multi-tranche financing facility (MFF) for the Sustainable Urban Development Investment Program,** which aims to help Armenia upgrade its urban transport services, to improve living conditions, and bolster economic opportunities in selected secondary cities. The Tranche 1 for \$48.64 million (approved in 2011) and the tranche 2 for

\$112.97 (approved in 2015) of the MFF will help improve and extend the urban infrastructure and to strengthen the institutional capacity in Yerevan.

6. In 2009, ADB approved a \$500 million MFF to fund the North–South Road Corridor Investment Program. In 2009 AsDB approved Tranche 1 (\$60 million) for improving the Yerevan-Ashtarak section of the road. Tranche 2 (\$170 million) approved in 2010 finances the upgrade of the road between Ashtarak and Talin. In 2013 AsDB approved Tranche 3 for \$100 million to finance continuing construction of the road to Gyumri (additional co-financing is provided by the European Investment Bank).

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

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

9. With the exception of the Tranche 2 and Tranche 3 of the North-South Road Corridor Investment Program and the Tranche 2 of the Sustainable Urban Development Investment Program, all approved sovereign loans are from the AsDB's concessional Asian Development Fund.

10. ADB has approved \$130 million in nonsovereign financing in Armenia for three private sector transactions. In 2013, ADB signed a \$25 million loan with International Energy Corporation to rehabilitate and improve the reliability and safety of Sevan-Hrazdan Cascade Hydropower, in a program cofinanced with the European Bank for Reconstruction and Development (EBRD). In November 2011, AsDB approved a non-sovereign lending program totaling \$65 million for four commercial banks to expand lending to small and medium-size enterprises. One non-sovereign loan for \$40 million was provided to Armenia International Airports for the Zvartnots Airport Expansion Project (Phase 2). The loan financed the construction of a new terminal building and purchase of equipment to supplement the existing concourse building, in a program cofinanced with EBRD and DEG (German Investment and Development Corporation). AsDB's Trade Finance Program works with four banks in Armenia and has supported over \$39 million in trade across 55 transactions.

11. In addition to financing projects and programs, the AsDB is also involved in advisory services and capacity development. These include technical assistance programs for urban development in secondary cities, export- and innovation- led industrial development, infrastructure sustainability, organization of an investment forum, and solid waste management. Armenia is also included in a number of AsDB's multi-country TA projects, providing assessments and development plans on topics of common interest across countries.

STATISTICAL ISSUES

(As of November 1, 2016)

Background

1. **Data provision by Armenia has shortcomings, but is broadly adequate for surveillance.**

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

2. Data provision is adequate and sufficient for program monitoring. Program series, as defined in the Technical Memorandum of Understanding (TMU) are provided with the required timeliness. Monetary statistics include data on one bank's headquarters and some branches in Nagorno-Karabakh (as identified in the above-mentioned data ROSC). The program monetary variables specified in the TMU (based on these statistics) have been defined on a consistent manner over the program period since the program's approval by the Board.

Real sector statistics

3. The National Statistics Service (NSS) compiles and disseminates annual and quarterly national accounts. The NSS also compiles and disseminates annually a full set of accounts (up to financial accounts) for the total economy and by institutional sectors. As of 2015, the NSS has been preparing the national accounts under the methodology of the *System of National Accounts 2008 (2008 SNA)*. GDP under this new methodology have been extended back to 2012, and there are plans to also cover earlier years.

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

construction aggregates at constant prices. The NSS should also implement new surveys to derive a proper benchmark for informal activities.

5. The production-side estimates at current prices are derived partially from cumulative source data (from business statistics surveys) and partially from discrete data sources. The NSS validates and reconciles data from different sources, but underlying problems associated with de-cumulating the cumulative output data distort the quarterly pattern. The NSS is currently working to produce GDP data at current and at constant prices to be fully in accordance with the SNA. The NSS received IMF TA on estimating quarterly GDP from discrete data sources only and is using statistical techniques that conform to international standards. Recent publications of the NSS have reflected this effort. The NSS has discontinued compiling GDP volume measures at the prices of the corresponding quarter of the previous year and instead adopted the recommendation of the IMF STA mission to compile only one set of quarterly GDP estimates—quarterly GDP at previous-year average prices—and derive time series through chain-linking. These estimates would be conceptually consistent with the annual data. They would also allow comparisons between different periods, which are essential for analysis of the business cycle. Since 2012, NSS has discontinued compiling GDP on average prices of 2005 and instead they just published GDP for 2009–2012 on average prices of year 2008. As of January 2011, the NSS also started compiling a monthly indicator of economic activity (IEA), following international best practices. The monthly GDP compilation was discontinued. The monthly IEA is an implicit volume index compiled by aggregation of monthly volume indices of output using gross output weights. The CPI covers 11 large population centers and Yerevan. The CPI is currently computed using 2015 weights. Concepts and definitions used in the compilation of the CPI are broadly in line with international standards; source data and compilation techniques are generally adequate. The NSS compiles a ten-day and a monthly CPI. The ten-day index and the monthly index are disseminated jointly. A February data 2009 ROSC mission recommended development of an approach to include household expenditure on owner-occupied dwellings in the CPI calculations.

Government finance statistics

6. The budget execution reporting system compiles government finance data on a cash basis, supplemented with monthly reports on arrears and quarterly reports on receivables and payables. Daily revenue and cash expenditure data for the central government are available with a lag of one to two days and monthly data on central government operations are disseminated one month after the reporting period. The MoF is undertaking a comprehensive reform of the treasury system, including the introduction of an internal auditing system in line ministries and their respective budgetary institutions. A treasury single account (TSA) was introduced in 1996, and all bank accounts held by budgetary institutions were closed, except for project implementation units (PIU) that are required by donors to operate with commercial bank accounts. Since 2010 these PIU accounts also are being moved gradually to the TSA. Starting in 2002, some budgetary institutions have been converted into “noncommercial organizations” (NCOs). These units have been taken out of the treasury system and have their own bank accounts, but since 2003 report data on cash flows

and balances to the MoF. The February 2009 ROSC report recommended including NCOs in the government finance statistics data published on national websites. These exceptions notwithstanding, all government receipts and payments are processed through the TSA, although there are still shortcomings on the timeliness and quality of data on the operations of local governments.

7. The budget presentation and the classification of items under the economic and functional classification of expenditures need to be made more transparent; for instance, the data have been subject to frequent reclassification, and wages for military personnel, teachers, and doctors are reported in the category of goods and services and other expense, rather than as a wage item. The February 2009 ROSC report recommended using market value rather than face value for financial assets other than loans, and for nonfinancial assets. The reconciliation of central government with general government operations is done by the NSS in cooperation with the MoF.

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

Monetary and financial statistics

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

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

External sector statistics

11. In 2009, the Armenian authorities decided to transfer the responsibility for compiling the balance of payments, international investment position (IIP), and external debt statistics from the NSS to the CBA. The February 2010 STA mission provided advice on an action plan aimed at ensuring a smooth institutional transfer of responsibility, as well as consistency and continuity in the production of the external sector statistics. The responsibilities of compiling external sector statistics were de facto transferred to the CBA in January 2011, and since then, the CBA has compiled balance of payments, external debt, and IIP data for 2011. The transfer of responsibilities

was smooth and during the short period after the transfer, the CBA undertook a number of important actions aimed at improving the compilation system. A follow up IMF STA mission in October 2011 undertook a comprehensive assessment of the institutional arrangements, data sources, methodology, and compilation practices for external sector statistics employed by the CBA, and advised on areas for improvement including further developing data sources and compilation practices.

12. The coverage of external sector data has improved in recent years, although some recent delays have emerged with the transitions towards the Eurasian Economic Union (EEU).

Trade statistics are provided on a timely basis, and trade data by origin, destination, and commodity are generally available within a month. However, reporting problems have arisen in 2015 with EEU trade data. Price data for exports and imports are less readily available. Quarterly balance of payments statistics are generally available with a three-month lag. However, for remittances, there are considerable discrepancies among available source data. Remittance data obtained from surveys are considerably lower than data obtained through the money transfer system. The absence of a comprehensive, continuously updated business register hampers the coverage of transactions and institutional units; in particular, the coverage of the financial account items for the private nonbank sector. There are also concerns with regard to the collection of data on international trade in services, specifically on import of services. The CBA is currently considering the implementation of an international transactions reporting system that would allow for collecting data on all cross-border payments and receipts going through the banking system.

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

Armenia: Common Indicators Required for Surveillance
(As of November 1, 2016)

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷
Exchange Rates	Oct. 2016	10/31/2016	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Oct. 2016	10/31/2016	D	D	M
Reserve/Base Money	Oct. 2016	10/31/2016	D	D	D
Broad Money	Sep. 2016	11/1/2016	M	M	M
Central Bank Balance Sheet	Oct. 2016	10/31/2016	D	M	M
Consolidated Balance Sheet of the Banking System	Sep. 2016	11/1/2016	M	M	M
Interest Rates ²	Oct. 2016	10/28/2016	W	W	M
Consumer Price Index	Sep. 2016	11/1/2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ — General Government ⁴	Q2 2016	9/01/2016	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Q2 2016	9/01/2016	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Sep. 2016	10/31/2016	M	M	Q
External Current Account Balance	Q2 2016	10/1/2016	Q	Q	Q
Exports and Imports of Goods and Services	Q2 2016	10/1/2016	M	M	Q
GDP/GNP	Q2 2016	9/15/2016	Q	Q	Q
Gross External Debt	Q2 2016	10/1/2016	Q	Q	Q
International Investment Position ⁶	Q2 2016	10/1/2016	Q	Q	Q

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

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

³ Foreign, domestic bank, and domestic nonbank financing.

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

⁵ Including currency and maturity composition.

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

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