

**EXECUTIVE
BOARD
MEETING**

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Supplement 1

June 8, 2017

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Armenia—Staff Report for the 2017 Article IV Consultation and Fifth and Final Review Under the Extended Arrangement—Informational Annex**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Friday, June 23, 2017
Publication:	Yes*
Questions:	Mr. Samiei, MCD (ext. 36356) Mr. Yoon, MCD (ext. 36997)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Friday, June 16, 2017—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

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND FIFTH AND FINAL REVIEW UNDER THE EXTENDED ARRANGEMENT—INFORMATIONAL ANNEX

June 7, 2017

Prepared By

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

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FUND RELATIONS

(April 30, 2017)

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	306.85	238.24
Reserve Tranche Position	0.00	0.00

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	87.99	100.00
Holdings	7.10	8.07

Outstanding Purchases and Loans:

	SDR Million	Percent of Quota
ECF Arrangements	124.68	96.80
Extended Arrangements	178.05	138.23

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	03/07/2014	08/31/2017	82.21	66.52
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>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Principal	33.14	45.17	52.83	54.63	49.35
Charges/interest	2.14	2.66	2.31	1.92	1.51
Total	35.28	47.83	55.14	56.55	50.86

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.

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 previous Article IV consultation with Armenia was concluded on December 22, 2014.

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, 2010–17

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
Public finance management	Short-term	October 2013	MoF
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
Fiscal Risk	Short-term	April-May 2017	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

Armenia: Technical Assistance from the Fund, 2010–17 (concluded)			
Medium-term debt management strategy	Short-term	December 2011	CBA
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
TA needs assessment for the Central Bank	Short-term	August 2016	
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 April 30, 2017)

Title	Products	Provisional timing of missions	Expected delivery date (tentative)
World Bank's Country Partnership Strategy (CPS) for Armenia (2013–17)	Country Partnership Strategy Performance and Learning Review for Armenia (extending the CPS until 2018)		Completed in May 2016
1. Bank program in the next 12 months	<p>Selected Ongoing and New Operations</p> <p>Public Sector Modernization Project II (US\$9 million)</p> <p>Tax Administration Modernization Project (US\$12 million)</p> <p>DPO series to support competitiveness and ensure sustainability (US\$197 million)</p> <p>New Health Project for Disease Prevention and Control (US\$30 million)</p> <p>Public Sector Modernization (III) and PFM project (US\$26.5 million)</p> <p>Power Sector Financial Recovery Project (US\$32 million)</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>Semi Annual</p> <p>Semi Annual</p> <p>Quarterly</p> <p>Semi Annual</p> <p>Quarterly</p> <p>Continuous</p> <p>Completed</p> <p>Completed</p> <p>Completed</p>	<p>Project implementation started in September 2010 and was completed in January 2017. the draft Implementation Completion Report is being prepared.</p> <p>Board approval in July 2012, effective since December 2012, expected completion in December, 2017</p> <p>Board for DPO-2 (US\$75 million): November 2014 DPO-3 (US\$50 million): December 2015 DPO-4 (US\$50 million): December 2016</p> <p>Board approval in March 2013</p> <p>Board approval in September 2015, effective since March 2016 Board approval in April 2016</p> <p>Annual Series (2015 report) Completed in June 2015 and disseminated in November 2015.</p> <p>The 2015 report was completed June 2015, disseminated in November, 2015</p> <p>Completed in June 2016 and disseminated in November 2016</p>

Title	Products	Provisional timing of missions	Expected delivery date (tentative)
	<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>One-stop shop for providing construction permits</p> <p>CGE model-based technical assistance to simulate trade and growth projections (US\$120K)</p> <p>Technical Assistance on Tax Policy (US\$150K)</p> <p>Technical Assistance on Tax Policy (US\$75K)</p>	<p>Completed</p> <p>On-going</p> <p>On-going</p> <p>On-going</p>	<p>Completed in June 2015</p> <p>Completed and disseminated in December 2014</p> <p>Started in June 2016 with expected completion in June 2017</p> <p>Concept Note prepared in February 2017 with expected completion in July 2017</p> <p>Completed in June 2015</p> <p>Completed in June 2016</p> <p>Completed in June 2015</p> <p>Completed in June 2016</p> <p>Completed in June 2016</p> <p>Commenced in June 2016 and expected completion in June 2017</p>
2. IMF work program in the next 12 months	<p>Fifth EFF Review and 2017 Article IV Consultation</p> <p>Technical Assistance/Training</p> <p>FAD (fiscal rule)</p> <p>ICD/RES (macro modeling to include financial stability consideration in inflation targeting framework)</p>	<p>March 2017</p> <p>June 2017</p> <p>Ongoing</p>	<p>June 2017</p> <p>2nd half of 2017</p> <p>Ongoing</p>

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

(As of April 30, 2017)

EBRD Scorecard

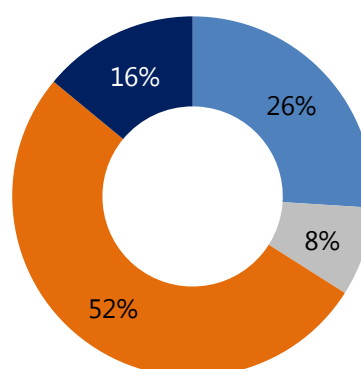
1. The EBRD is the largest single investor in Armenia. To date, the Bank has committed almost €1,112million in over 158 projects in all major sectors of the economy.

EBRD Activity in Armenia to Date (As of April 2017)	
158 Numbers of projects to date	€1,112m Cumulative EBRD investment
€771 million Cumulative disbursements	88 percent Private sector share of portfolio

Portfolio Composition

Current portfolio: 305 million euro*

- Infrastructure
- Industry, commerce and agribusiness
- Financial institutions
- Energy



Source: European Bank for Reconstruction and Development (EBRD)

*Includes undisbursed commitments

EBRD activities in Armenia for 2014–16

Financial Institutions

2. In the financial sector, the Bank has enhanced access to finance, particularly for SMEs, through an array of dedicated credit lines to commercial banks and micro-credit organizations, direct debt, mezzanine and equity investments, as well as complementary technical assistance, with a special focus on local currency. Armenia is also one of the countries where the Bank's Local Currency and Capital Markets Development Initiative has delivered its best and most visible results, setting the stage for further development of local capital markets. Notable achievements include:

- Signing of 29 deals channelling €200.5 million to Armenian commercial banks and micro financing institutions for on-lending primarily to SMEs, of which approximately €100 million has been disbursed in local currency, helping reduce vulnerability to exchange rate risk.
- With respect to energy efficiency, the Bank continues to support investments through CEEP, and will look to boost energy efficiency in existing building stock. Since 2013, five Armenian banks, one credit organisation and one financial leasing company have joined the programme, signing more than €35 million in loans for on-lending to industrial and residential EE sub-projects.
- EBRD is supporting bank consolidation through strategic capital participation in support of stronger, more efficient bank leaders – which in turn will boost access to finance for corporate borrowers. In 2015, the Bank has participated in equity investment of AMD 9.8 billion for up to 22.7 percent of shares in Inecobank, a specialist small and medium-sized enterprises (MSME) and retail bank in Armenia. The proceeds of the EBRD investment were channelled to finance the acquisition of ProCredit Bank Armenia, another local bank oriented towards MSMEs.
- In 2015, EBRD invested \$40 million in the acquisition of an equity stake (20%) in Ameriabank, the largest commercial bank in Armenia. This is the largest single-ticket equity deal EBRD has signed in Armenia to date, and helps set the stage for further bank consolidation.
- EBRD is supporting development of female entrepreneurship in Armenia by extending a local currency loans, equivalent to €12.3 million, to Ameriabank and ACBA bank for on-lending to women-led small and medium-sized businesses. The loans come under the expansion of the Bank's Women in Business programme to include the Eastern Partnership countries—Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.
- Building on prior efforts to develop the local institutional and regulatory framework, in 2014 the Bank issued its first bond in Armenian dram, with the proceeds on-lent to MSMEs through dram credit lines in the local banking system. As of December 2016, the Bank had issued €44.1 million equivalent in drams of local currency bonds.

Infrastructure

3. The Bank has been active in municipal and environmental infrastructure and urban transport, where the Bank has provided nearly about €59 million in private sector and €19 million in sovereign loans during 2014–16.

- Yerevan Street Lighting pilot project was signed in 2015 (€3.7 million) to provide 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 that benefited from the Eastern Europe Energy Efficiency and Environmental Partnership (E5P) grant facility in Armenia.
- In 2014, the Bank signed a €3.5 million loan for Kotayk Solid Waste Management project with the Armenian government to construct the first EU compliant solid waste landfill in Armenia. The loan was complemented by capital grant financing of €3.5 million provided by the European Union Neighbourhood Facility and represents the first project under the National Solid Waste Strategy of Armenia. Later in 2016 the loan was extended by €2 million, now involving a total of 12 small municipalities.

- In 2015, 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. 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.
- In 2015, EBRD participated in a landmark international syndication (€28.3 million) for Zvartnots International Airport which will provide significant additional resources for further investment in Armenia. Prior to this in 2014 the Bank signed the Armenian International Airport Phase II in the total amount of €30.8 million.
- In 2015, EBRD and the Ministry of Energy and Natural Resources of Armenia signed an agreement on Armenia's participation in the E5P.
- In 2016, EBRD financed an energy efficient street lighting and city street rehabilitation programme in Gyumri, the second largest city in Armenia, with a €14.6 million sovereign loan. The project consists of three tranches with the first tranche currently under implementation. The first and second tranches are for the rehabilitation of 15–20 km urban roads, including energy efficient street lighting of those selected roads, and a third tranche will modernization the street lighting system of the whole city.

Sustainable energy and mining

4. In sustainable energy and mining, EBRD has signed 3 deals—a loan of €3.3 million to Dundee Precious Metals, and two equity investments totalling €9.8 million with the Toronto-listed mining company, Lydian International. In addition to these investments, the Bank has engaged in a multi-faceted dialogue with Armenian government to develop a more comprehensive understanding of international standards, requirements and best practices in the global mining industry in Armenia. Lydian's Amulsar mine project in Armenia was permitted in late 2014 under a new Mining Code. The Bank's financing will be earmarked for financing key components recommended by the Environmental and Social Impact Assessment, such as for the biodiversity off-set programme and construction of a passive water treatment facility.

Industry, Commerce and Agribusiness

5. EBRD supports agribusiness and high value-added corporates through direct investment (debt, equity, mezzanine), typically combined with significant hands-on capacity building assistance, helping smaller clients grow their businesses by providing crucial financial and technical support to implement capex intensive business plans. During the last 3 years, EBRD has signed 8 deals totalling €22.4 million in support of agribusiness, manufacturing and services companies.

Small Business Initiative

6. EBRD supports the economic development of Armenia through provision of tailored business advice and know-how to SMEs on a cost-sharing basis through local consultants and international industry advisers, covering areas such as strategy, operations, financial

reporting, marketing, and energy efficiency. With Advise for Small Business (ASB) support, clients are expanded and improving their businesses, often employing more people and accessing external finance. Since 2014, EBRD ASB team has implemented 264 local advisory and 15 international advisory projects for SMEs.

7. Recently EBRD secured €15 million via an EU-NIF Grant to establish the Armenian SME Finance & Advice Facility. The facility will include €4 million for ASB advice to corporates, and €11 million to assist in the establishment of an Armenia-only private equity fund managed by a high quality, private sector, equity fund manager.

Policy dialogue

8. EBRD continues to support Investment Council, serving as a platform for policy dialogue between the Government and the private sector. A number of reforms aimed at creating an enabling favourable environment for the SME sector development has been implemented in tax, customs, business registration and other areas, covering specific achievements, such as introduction of a simplified taxation regime for SMEs, a special phased tax regime for IT start-ups, and simplification of customs clearance procedures. EBRD is providing technical assistance to enhance the business environment, such as improvements in the legal/regulatory frameworks for leasing and factoring and implementation of the legal framework for collateral recovery and liquidation.

9. In 2016, the Central Bank of Armenia (CBA), the Ministry of Finance, and EBRD signed an updated Memorandum of Understanding (MOU) on local currency and capital market development. Under the original 2012 MOU, key achievements were (i) implementation of inflation targeting, (ii) creation of a private pension fund system with two international asset managers, and (iii) improvement of the regulatory and market framework for local bond issuance. Under the renewed MOU, a detailed action plan has been defined and is under implementation. To coordinate the effort, a high-level steering committee has been formed which is co-chaired by the CBA and EBRD.

10. In 2016, the Armenian parliament has passed a package of laws regulating the local financial markets and amendments to the law on the securities market, following close cooperation with the EBRD. The new law provides for the enforceability of derivatives transactions, including netting, close-out netting and financial collaterals, amends over 17 laws and introduces more than 15 new regulations to Armenia's financial legislation, including settlement finality. The EBRD provided technical cooperation to the CBA for the drafting of the package. Experts, funded by the EBRD-managed Shareholder Special Fund, worked with the Central Bank on the legal reform. This project was also coordinated with, and supported by ISDA. Also, through policy dialogue with the CBA, and outreach with investors, traders and market infrastructure providers, EBRD supports a more robust money market, the emergence of domestic hedge instruments, and more international investment into Armenian debt instruments. Strengthening the local capital market and increasing local currency lending were the main themes of a workshop organised by EBRD and CBA in 2016.

11. In agribusiness sector the EBRD is supporting the development of innovation and the knowledge economy in the dairy sector of Armenia. A forum entitled 'Innovation and Knowledge-Sharing in the Dairy Sector' was organised by the EBRD with the support of the Armenian Ministry of Agriculture in 2016.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ASDB)

(As of April 30, 2017)

1. Armenia joined the AsDB in September 2005. AsDB's first Country Partnership Strategy for Armenia for 2014–18 (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. As of January 1, 2017, Armenia was reclassified as a Group C country eligible for market-based ordinary capital resources only.

2. As of April 30, 2017, the AsDB cumulative sovereign lending amounted to \$1,050.3 million for 18 loans. In 2016, AsDB approved a Policy-Based Loan of \$90 million for phase 2 of the Infrastructure Sustainability Support Program, which focuses on improvements in infrastructure operations and sustainability. In 2016, AsDB also approved financing of \$50 million for the Armenia-Georgia Border Regional Road (M6 Vanadzor-Bagratashen) Improvement Project. The road project will support the rehabilitation and upgrading 51.5 kilometers of the two-lane highway in northern Armenia and will enhance international connectivity, reduce the cost of transport, and improve facilities and safety. It has collaborative cofinancing of \$56.4 million from the European Investment Bank (EIB).

3. In 2015 AsDB approved a Results-Based Loan of \$88.5 million for the Seismic Safety Improvement Program. The program supports the government in seismic strengthening and renovation of priority school buildings and will improve seismic safety planning and management competencies.

4. 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.

5. 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.

6. 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.

7. 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).

8. ADB has approved \$136 million in non-sovereign financing in Armenia for four private sector transactions. In 2016, AsDB approved a \$6 million loan to a universal credit organization to expand lending to small and medium-size enterprises and the agriculture sector, primarily outside of the capital Yerevan. 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. In 2010, a 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 \$47 million in trade through 103 transactions.

9. In addition to financing projects and programs, the AsDB is also involved in advisory services and capacity development. These include technical assistance (TA) programs for urban development in secondary cities, export- and innovation- led industrial development, schools seismic strengthening and infrastructure sustainability. 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 May 15, 2017)

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 2009–12 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 May 15, 2017)

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷
Exchange Rates	April 2017	5/1/2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	April 2017	5/1/2017	D	D	M
Reserve/Base Money	April 2017	5/1/2017	D	D	D
Broad Money	April 2017	5/1/2017	M	M	M
Central Bank Balance Sheet	April 2017	5/1/2017	D	M	M
Consolidated Balance Sheet of the Banking System	April 2017	5/1/2017	M	M	M
Interest Rates ²	April 2016	5/1/2017	W	W	M
Consumer Price Index	April 2017	5/5/2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ — General Government ⁴	Q1 2017	5/5/2017	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Q1 2017	5/5/2017	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	March 2017	4/30/2017	M	M	Q
External Current Account Balance	Q4 2016	3/31/2017	Q	Q	Q
Exports and Imports of Goods and Services	Q1 2017	5/10/2017	M	M	Q
GDP/GNP	Q4 2016	3/2/2017	Q	Q	Q
Gross External Debt	Q4 2016	3/31/2017	Q	Q	Q
International Investment Position ⁶	Q4 2016	3/31/2017	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, extra-budgetary 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).