

**EXECUTIVE
BOARD
MEETING**

EBS/20/90
Correction 2

May 19, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Armenia—Second Review Under the Stand-By Arrangement,
Requests for Augmentation of Access, Modification of Performance Criteria,
and Monetary Policy Consultation Clause**

Board Action: The attached correction to EBS/20/90 (5/4/20) has been provided by the staff:

Evident Ambiguity **Page 13**

Questions: Mr. Porter, MCD (ext. 37316)
Mr. El Said, MCD (ext. 35918)
Mr. Tabarraei, MCD (ext. 35558)

budget documentation and the development of coordinated and centralized capacity within the Ministry of Finance with clarified functions and responsibilities (MEFP ¶13). In the near-term, staff encouraged the authorities to transparently report estimated contingent fiscal risks associated with the crisis response measures alongside annual budgets.

16. The authorities are contemplating actions to support the post-crisis recovery. Although the most direct action would be through the implementation of a pipeline of high-quality capital projects aimed at strengthening national infrastructure, the government is also considering spurring innovation through limited direct equity investment into innovative companies. Staff noted that alternative measures to encourage private innovation would be preferable, including targeted and limited direct subsidies or co-financing. If the authorities decide to go ahead with equity investment, transparency and careful management of any fiscal risks created will be essential. Additionally, direct equity investment would require independent management of the equity portfolio, transparency over the selection of projects and partners as well as the financial performance of the equity portfolio, protections to limit the impact on competition and governance, and safeguards to prevent the value of the state's investment being undercut.

B. Monetary and Financial Policies in the Era of COVID-19

17. The CBA has responded to the COVID-19 crisis, balancing its mandates for price and financial stability. Since the pandemic's outbreak, markets have generally functioned smoothly. Policy responses include:

- **Policy rate.** Balancing pressures from capital outflows with the space provided by low inflation, the CBA lowered its policy interest rate by $\frac{1}{4}$ percentage point in March, and by a further $\frac{1}{4}$ percentage point in late April, bringing it to 5 percent. Given the high uncertainty on external developments and the high levels of dollarization, there is no minimal scope for further rate cuts at this point.
- **FX intervention.** The CBA undertook limited FX sales intervention in March to address excessive dram volatility. Since then the dram has appreciated relative to the USD and the CBA has undertaken some FX purchases. While CBA may need to respond to prevent disorderly movements, it should also ensure that the exchange rate remains flexible and should not lean against necessary exchange rate adjustments.
- **Liquidity.** The interbank market has been relatively active since the beginning of the crisis. In addition, the CBA has conducted repos and FX swap operations to ensure ample liquidity conditions across the market.

