

**EXECUTIVE
BOARD
MEETING**

EBS/20/178
Correction 1

December 9, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Armenia—Third Review Under the Stand-By Arrangement and Modification of Performance Criteria**

Board Action:

The attached corrections to EBS/20/178 (11/30/20) have been provided by the staff:

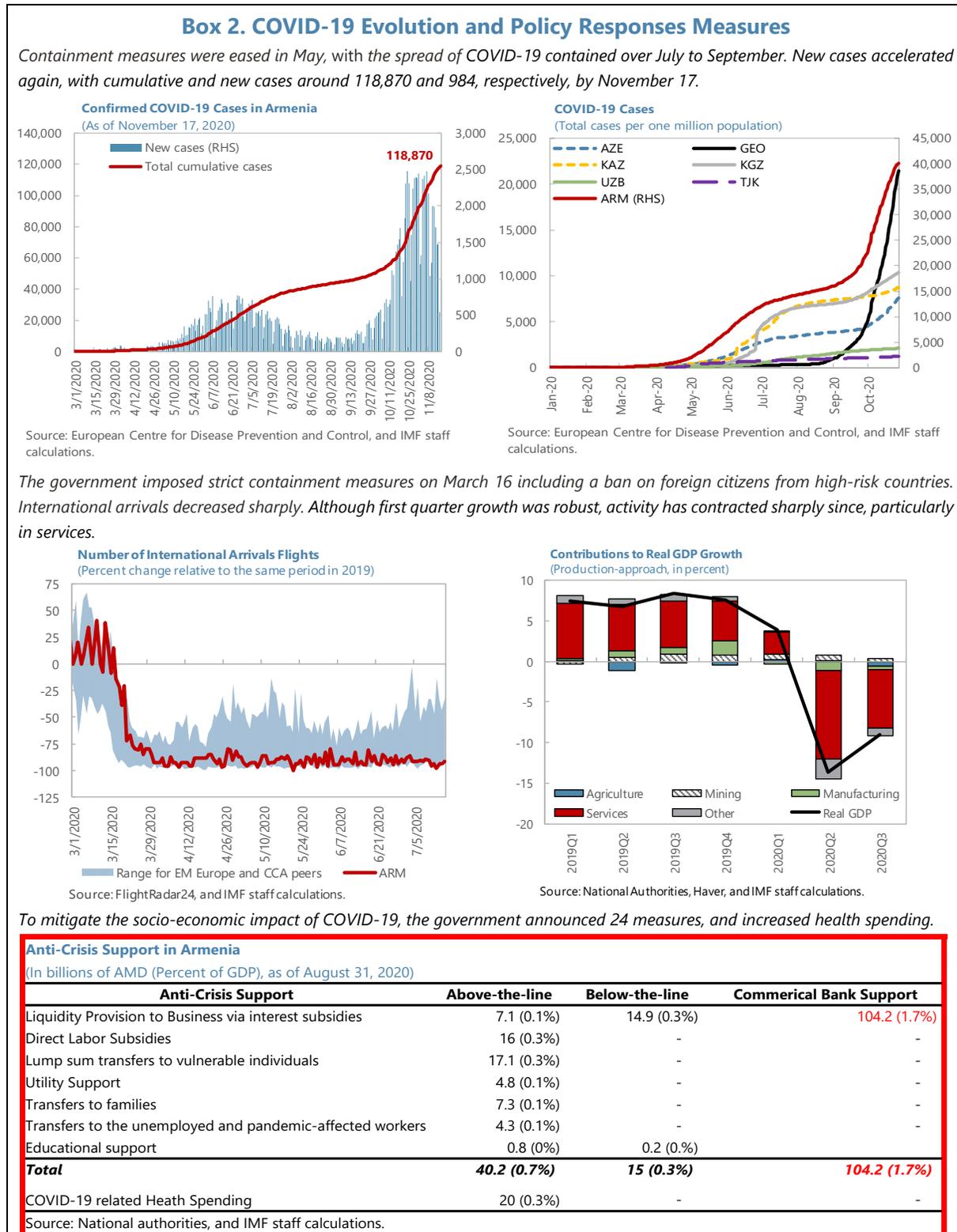
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Pages 5, 6, 12, 29, 30, 38

Questions:

Mr. Porter, MCD (ext. 37316)
Mr. El Said, MCD (ext. 35918)

2. In addition, Armenia continues to face new challenges from the pandemic (Box 2). After reaching a first peak in infections during the second quarter, infections moderated considerably through September. However, a second wave started in October, with new cases quickly surpassing their first peak (Box 2).



3. The authorities responded to the pandemic with a broad range of health, fiscal, financial, and monetary policy measures. The authorities spent AMD55 billion on anti-crisis support, and AMD20 billion on one-off health spending related to COVID-19 (Box 2). In addition, to alleviate corporate liquidity pressures, the MoF exempted corporate income taxpayers from their pre-payment obligation in 2020Q2 (AMD 65 bn). The CBA cut its policy rate four times this year, and provided liquidity, including through FX-swaps and repos. In addition, it encouraged banks to grant short-term payment holidays (and correspondingly extend loan maturities), to ease the liquidity pressures facing borrowers, with AMD1.3 trillion—around one-third of end-June credit—restructured between March and June. Moreover, the government’s credit support measures generated additional loans of AMD 126.484.5 billion, one-fourth 31 percent of the credit growth in September. Many of the government’s anti-crisis support measures have been phased-out, although some have evolved into support for the subsequent post-COVID recovery.¹

B. Recent Economic Developments

4. These twin shocks have had a significant impact on the economy. Driven by weakness in service and trade sectors, real GDP contracted by 13.7 percent and 9.1 percent in the second and third quarters of 2020, respectively, cumulatively declining by 7.1 percent over the first three quarters of 2020. Despite broad-based declines, mining and technology sectors have contributed positively to growth, and monthly economic indicator show a slight recovery in construction during September. The conflict likely affected activity in October and early-November given the mobilization of prime-age workers. Inflation remains low but increased modestly to 1.3 percent (y-o-y) in October on the back of expansionary monetary policy and an unwinding of disinflationary agricultural factors.

Armenia: Selected Economic and Financial Indicators, 2019–22

| | 2019 | 2020 | | 2021 | | 2022 | |
|---|-------|------------|-------|------------|-------|------------|-------|
| | Act. | 2nd Review | Proj. | 2nd Review | Proj. | 2nd Review | Proj. |
| Real GDP (percent change) | 7.6 | -1.5 | -7.3 | 4.8 | 1.0 | 4.5 | 3.5 |
| Gross domestic product (in billions of drams) | 6,569 | 6,519 | 6,140 | 6,990 | 6,344 | 7,543 | 6,776 |
| Fiscal balance (in percent of GDP) | -1.0 | -5.0 | -7.0 | -2.9 | -5.6 | -2.0 | -2.6 |
| Public and publicly-guaranteed (PPG) debt (in percent of GDP) | 53.5 | 64.1 | 66.3 | 62.1 | 72.5 | 59.8 | 71.2 |
| Central Government's PPG debt (in percent) | 49.9 | 60.9 | 63.1 | 59.1 | 69.4 | 57.3 | 68.5 |
| Current account balance (in percent of GDP) | -7.2 | -8.6 | -6.0 | -7.2 | -6.5 | -6.7 | -6.2 |

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

5. The external sector weakened markedly in 2020. After strong private inflows and accumulation of reserves in 2019, the pandemic weakened exports, tourism receipts, remittances, FDI, and private capital inflows. By end-October, these developments and net debt service, which was particularly large in Q3, placed downward pressure on the dram and reduced reserves by about US\$300 million. External bond spreads temporarily increased by 106 bps up to November 2, before declining by almost 100 bps after the announcement of the November 10 ceasefire. Despite these

¹ For example, Measure 1 (Government liquidity provision to businesses) was adapted to provide loans to encourage post-pandemic investment.

is credible as Armenia has maintained market access and has good track of market financing and spreads are below some peers who have recently issued. These funds will also help maintain an adequate liquidity buffer for the government at the CBA. Government debt is expected to reach slightly more than 69 percent of GDP by end-2021.

14. The authorities are committed to ensuring sustainability and to rebuilding fiscal buffers over the medium term. After using the fiscal rule's escape clause in 2020–2021, medium-term efforts will be guided by Armenia's fiscal rule with the aim to bring debt-to-GDP below 60 percent by end-2026. To this end, the authorities intend to introduce various tax measures yielding additional revenues of 0.6 percent of GDP in 2022 and an additional 0.3 and 0.2 percent of GDP in 2023 and 2024, respectively, while also containing current spending. Envisaged revenue reforms and expenditure restraint would allow the authorities to support growth while bringing fiscal deficits to below 2 percent of GDP and with debt declining to around 61 percent of GDP by end-2025. Key reforms are based on:

- **Tax reforms** including (i) adjusting the turnover tax threshold and rate to equalize the burden across various tax regimes; (ii) introducing an environmental tax on mining waste in 2021; (iii) increasing rates of various environmental taxes and nature use fees in 2022; (iv) abolishing the VAT exemption for medical services for foreigners; (v) limiting the use of documents issued by micro enterprises to make deductions from the base; and (vi) improving tax audit practices by ceasing the advanced publication of intended audit subjects (see text table). At the same time, staff urged the State Revenue Committee to implement its recently formulated compliance risk strategy, as well as build on its ongoing tax gap analysis to identify ways to raise additional revenue.
- An **expenditure review**, planned for early 2021, will identify efficiencies in current spending and is intended to feed into the 2022 budget process. The identification of efficiencies should support fiscal consolidation, allow current spending to return to its pre-crisis level, while ensuring space for priority social and investment spending.

| Tax Revenues and Measures | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 |
| Tax revenues in percent of GDP | 22 | 22.1 | 23 | 23.3 | 23.5 |
| Legislated measures under implementation | | | | | |
| Excise rate increase | | 0.1 | 0.3 | - | - |
| Additional tax measures committed by the authorities | | | | | |
| of which: | | | 0.6 | 0.3 | 0.2 |
| Turnover tax threshold and rate adjustment | | | 0.1 | 0.1 | 0.1 |
| Various tax measures | | | 0.5 | 0.1 | |
| Revenue administration measures | | | | | |
| Implementing the tax compliance risk strategy and building on the tax compliance gap analysis | | | | 0.1 | 0.1 |

Source: IMF staff calculations.

Table 3a. Armenia: Central Government Operations, 2017–25

(In billions of Armenian drams)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Act. | Act. | Act. | Proj. | | | | | |
| Total revenue and grants | 1,182.0 | 1,341.7 | 1,565.5 | 1,496.7 | 1,495.8 | 1,702.1 | 1,891.4 | 2,074.7 | 2,259.7 |
| Total revenue | 1,168.7 | 1,330.5 | 1,553.1 | 1,460.9 | 1,472.2 | 1,673.3 | 1,863.5 | 2,047.6 | 2,233.4 |
| Tax revenues 1/ | 1,123.9 | 1,240.7 | 1,445.6 | 1,349.8 | 1,401.2 | 1,557.5 | 1,722.9 | 1,894.4 | 2,066.3 |
| VAT | 392.1 | 438.2 | 506.5 | 468.5 | 489.6 | 534.0 | 596.0 | 665.9 | 730.0 |
| Profits, simplified and presumptive | 113.6 | 170.4 | 234.0 | 216.3 | 202.6 | 216.8 | 244.2 | 266.2 | 290.3 |
| Personal income tax | 341.3 | 356.6 | 440.8 | 407.7 | 384.2 | 352.6 | 366.7 | 399.8 | 436.1 |
| Customs duties | 72.6 | 80.2 | 95.1 | 88.0 | 86.4 | 88.1 | 96.2 | 104.9 | 114.4 |
| Other | 204.4 | 195.3 | 169.2 | 169.3 | 238.3 | 365.9 | 419.8 | 457.6 | 495.5 |
| Social contributions | 15.8 | 17.4 | 18.7 | 22.0 | 18.1 | 54.8 | 74.0 | 80.7 | 88.0 |
| Other revenue | 28.9 | 72.3 | 88.8 | 89.1 | 52.9 | 61.0 | 66.6 | 72.6 | 79.2 |
| Grants | 13.3 | 11.2 | 12.4 | 35.7 | 23.6 | 28.8 | 27.9 | 27.1 | 26.2 |
| Total expenditure | 1,448.3 | 1,447.1 | 1,629.4 | 1,926.3 | 1,850.6 | 1,879.4 | 2,016.0 | 2,194.5 | 2,362.9 |
| Expenses | 1,225.7 | 1,299.0 | 1,437.1 | 1,641.6 | 1,635.2 | 1,608.7 | 1,690.8 | 1,815.8 | 1,923.4 |
| Wages | 299.1 | 304.4 | 327.0 | 343.7 | 345.1 | 347.5 | 372.1 | 405.6 | 442.5 |
| Payments to individual pension accts. | 13.0 | 29.0 | 49.4 | 49.4 | 47.3 | 43.4 | 32.6 | 35.5 | 38.7 |
| Subsidies | 1.5 | 4.3 | 4.4 | 82.1 | 82.5 | 67.8 | 51.8 | 48.4 | 26.4 |
| Interest | 119.8 | 139.0 | 157.6 | 167.8 | 197.9 | 231.3 | 235.1 | 234.0 | 233.6 |
| Social allowances and pensions | 397.9 | 396.5 | 403.9 | 500.6 | 505.1 | 508.2 | 569.7 | 637.2 | 695.0 |
| Pensions/social security benefits | 267.3 | 265.7 | 269.9 | 329.2 | 340.2 | 352.4 | 392.1 | 435.6 | 475.1 |
| Social assistance benefits | 130.6 | 130.8 | 134.0 | 171.4 | 165.0 | 155.8 | 177.6 | 201.7 | 220.0 |
| Goods and services | 104.4 | 155.6 | 192.1 | 202.6 | 165.0 | 149.1 | 155.4 | 169.4 | 184.8 |
| Grants | 109.1 | 126.3 | 150.0 | 158.9 | 133.2 | 132.1 | 133.2 | 132.3 | 135.5 |
| Other expenditure 2/ | 180.8 | 143.8 | 152.8 | 136.5 | 131.5 | 129.4 | 141.0 | 153.4 | 167.0 |
| Transactions in nonfinancial assets | 222.6 | 148.1 | 192.3 | 284.7 | 215.4 | 270.7 | 325.2 | 378.7 | 439.5 |
| Acquisition of nonfinancial assets | 223.5 | 152.0 | 193.0 | 284.7 | 215.4 | 270.7 | 325.2 | 378.7 | 439.5 |
| Disposals of nonfinancial assets | 1.0 | 3.9 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (above-the-line) | -266.3 | -105.4 | -63.9 | -429.7 | -354.8 | -177.4 | -124.7 | -119.9 | -103.2 |
| Statistical discrepancy | -7.7 | 0.8 | -4.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (below-the-line) | -274.0 | -104.6 | -68.2 | -429.7 | -354.8 | -177.4 | -124.7 | -119.9 | -103.2 |
| Financing | 274.0 | 104.6 | 68.2 | 429.7 | 354.8 | 177.4 | 124.7 | 119.9 | 103.2 |
| Domestic financing | 86.5 | 69.4 | -13.3 | 364.1 | 88.2 | 98.8 | 63.5 | 109.3 | 84.3 |
| Banking system | 80.4 | 109.8 | -39.1 | 341.7 | 49.9 | 51.0 | 9.2 | 91.0 | 70.2 |
| CBA | 18.0 | 43.4 | -96.5 | 83.8 | -66.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commercial Banks | 62.4 | 66.4 | 57.5 | 257.9 | 116.1 | 51.0 | 9.2 | 91.0 | 70.2 |
| Nonbanks | 6.1 | -40.4 | 25.7 | 22.4 | 38.2 | 47.8 | 54.4 | 18.4 | 14.2 |
| T-Bills/other | -7.5 | -13.5 | 41.5 | 52.1 | 83.9 | 10.3 | 1.9 | 18.4 | 14.2 |
| Promissory note/other | -94.1 | 0.0 | 0.0 | -0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net lending | 107.7 | -26.9 | -15.8 | -28.8 | -45.6 | 37.5 | 52.5 | 0.0 | 0.0 |
| External financing | 187.5 | 35.2 | 81.6 | 65.6 | 266.6 | 78.5 | 61.1 | 10.5 | 18.9 |
| Gross disbursement | 282.3 | 154.4 | 412.8 | 293.9 | 450.8 | 247.7 | 243.3 | 203.2 | 507.1 |
| Amortization due | -47.9 | -68.5 | -274.2 | -150.8 | -119.0 | -113.1 | -121.0 | -126.0 | -415.5 |
| Net lending | -46.8 | -50.8 | -57.1 | -77.5 | -65.2 | -56.0 | -61.2 | -66.7 | -72.7 |
| Other financing 3/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | |
| Nominal GDP (in billion of drams) | 5,564.5 | 6,017.0 | 6,569.0 | 6,139.7 | 6,344.4 | 6,776.0 | 7,399.0 | 8,066.1 | 8,798.0 |
| Program balance 4/ | -202.5 | -155.7 | -90.1 | -517.3 | -434.1 | -195.9 | -133.3 | -186.5 | -176.0 |
| Primary balance 5/ | -85.7 | -44.1 | 20.7 | -368.3 | -267.7 | 35.4 | 101.8 | 47.5 | 57.6 |

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

1/ From 2018, the temporary tax credits used to cover tax obligations are not included in total tax revenues and are also not netted out from individual tax categories.

2/ Includes acquisition of military equipment.

3/ Covid19 fiscal gap.

4/ The program balance is measured as below-the-line balance minus net lending.

5/ Sum of overall balance (above the line), interest expense, and domestic and external net lending.

Table 3b. Armenia: Central Government Operations, 2017–25

(In percent of GDP, unless otherwise specified)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Act. | Act. | Act. | Proj. | | | | | |
| Total revenue and grants | 21.2 | 22.3 | 23.8 | 24.4 | 23.6 | 25.1 | 25.6 | 25.7 | 25.7 |
| Total revenue | 21.0 | 22.1 | 23.6 | 23.8 | 23.2 | 24.7 | 25.2 | 25.4 | 25.4 |
| Tax revenues 1/ | 20.2 | 20.6 | 22.0 | 22.0 | 22.1 | 23.0 | 23.3 | 23.5 | 23.5 |
| VAT | 7.0 | 7.3 | 7.7 | 7.6 | 7.7 | 7.9 | 8.1 | 8.3 | 8.3 |
| Profits, simplified and presumptive | 2.0 | 2.8 | 3.6 | 3.5 | 3.2 | 3.2 | 3.3 | 3.3 | 3.3 |
| Personal income tax | 6.1 | 5.9 | 6.7 | 6.6 | 6.1 | 5.2 | 5.0 | 5.0 | 5.0 |
| Customs duties | 1.3 | 1.3 | 1.4 | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 |
| Other | 3.7 | 3.2 | 2.6 | 2.8 | 3.8 | 5.4 | 5.7 | 5.7 | 5.6 |
| Social contributions | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | 0.8 | 1.0 | 1.0 | 1.0 |
| Other revenue | 0.5 | 1.2 | 1.4 | 1.5 | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 |
| Grants | 0.2 | 0.2 | 0.2 | 0.6 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 |
| Total expenditure | 26.0 | 24.0 | 24.8 | 31.4 | 29.2 | 27.7 | 27.2 | 27.2 | 26.9 |
| Expense | 22.0 | 21.6 | 21.9 | 26.7 | 25.8 | 23.7 | 22.9 | 22.5 | 21.9 |
| Wages | 5.4 | 5.1 | 5.0 | 5.6 | 5.4 | 5.1 | 5.0 | 5.0 | 5.0 |
| Payments to individual pension accts. | 0.2 | 0.5 | 0.8 | 0.8 | 0.7 | 0.6 | 0.4 | 0.4 | 0.4 |
| Subsidies | 0.0 | 0.1 | 0.1 | 1.3 | 1.3 | 1.0 | 0.7 | 0.6 | 0.3 |
| Interest | 2.2 | 2.3 | 2.4 | 2.7 | 3.1 | 3.4 | 3.2 | 2.9 | 2.7 |
| Social allowances and pensions | 7.2 | 6.6 | 6.1 | 8.2 | 8.0 | 7.5 | 7.7 | 7.9 | 7.9 |
| Pensions/social security benefits | 4.8 | 4.4 | 4.1 | 5.4 | 5.4 | 5.2 | 5.3 | 5.4 | 5.4 |
| Social assistance benefits | 2.3 | 2.2 | 2.0 | 2.8 | 2.6 | 2.3 | 2.4 | 2.5 | 2.5 |
| Goods and services | 1.9 | 2.6 | 2.9 | 3.3 | 2.6 | 2.2 | 2.1 | 2.1 | 2.1 |
| Grants | 2.0 | 2.1 | 2.3 | 2.6 | 2.1 | 2.0 | 1.8 | 1.6 | 1.5 |
| Other expenditure 2/ | 3.2 | 2.4 | 2.3 | 2.2 | 2.1 | 1.9 | 1.9 | 1.9 | 1.9 |
| Transactions in nonfinancial assets | 4.0 | 2.5 | 2.9 | 4.6 | 3.4 | 4.0 | 4.4 | 4.7 | 5.0 |
| Acquisition of nonfinancial assets | 4.0 | 2.5 | 2.9 | 4.6 | 3.4 | 4.0 | 4.4 | 4.7 | 5.0 |
| Disposals of nonfinancial assets | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (above-the-line) | -4.8 | -1.8 | -1.0 | -7.0 | -5.6 | -2.6 | -1.7 | -1.5 | -1.2 |
| Statistical discrepancy | -0.1 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (below-the-line) | -4.9 | -1.7 | -1.0 | -7.0 | -5.6 | -2.6 | -1.7 | -1.5 | -1.2 |
| Financing | 4.9 | 1.7 | 1.0 | 7.0 | 5.6 | 2.6 | 1.7 | 1.5 | 1.2 |
| Domestic financing | 1.6 | 1.2 | -0.2 | 5.9 | 1.4 | 1.5 | 0.9 | 1.4 | 1.0 |
| Banking system | 1.4 | 1.8 | -0.6 | 5.6 | 0.8 | 0.8 | 0.1 | 1.1 | 0.8 |
| CBA | 0.3 | 0.7 | -1.5 | 1.4 | -1.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commercial Banks | 1.1 | 1.1 | 0.9 | 4.2 | 1.8 | 0.8 | 0.1 | 1.1 | 0.8 |
| Nonbanks | 0.1 | -0.7 | 0.4 | 0.4 | 0.6 | 0.7 | 0.7 | 0.2 | 0.2 |
| T-Bills/other | -0.1 | -0.2 | 0.6 | 0.8 | 1.3 | 0.2 | 0.0 | 0.2 | 0.2 |
| Promissory note/other | -1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net lending | 1.9 | -0.4 | -0.2 | -0.5 | -0.7 | 0.6 | 0.7 | 0.0 | 0.0 |
| External financing | 3.4 | 0.6 | 1.2 | 1.1 | 4.2 | 1.2 | 0.8 | 0.1 | 0.2 |
| Gross disbursement | 5.1 | 2.6 | 6.3 | 4.8 | 7.1 | 3.7 | 3.3 | 2.5 | 5.8 |
| Amortization due | -0.9 | -1.1 | -4.2 | -2.5 | -1.9 | -1.7 | -1.6 | -1.6 | -4.7 |
| Net lending | -0.8 | -0.8 | -0.9 | -1.3 | -1.0 | -0.8 | -0.8 | -0.8 | -0.8 |
| Other financing 3/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | |
| Nominal GDP (in billion of drams) | 5,564 | 6,017 | 6,569 | 6,140 | 6,344 | 6,776 | 7,399 | 8,066 | 8,798 |
| Program balance 4/ | -3.6 | -2.6 | -1.4 | -8.4 | -6.8 | -2.9 | -1.8 | -2.3 | -2.0 |
| Primary balance 5/ | -1.5 | -0.7 | 0.3 | -6.0 | -4.2 | 0.5 | 1.4 | 0.6 | 0.7 |

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

1/ From 2018, the temporary tax credits used to cover tax obligations are not included in total tax revenues and are also not netted out from individual tax categories.

2/ Includes acquisition of military equipment.

3/ Covid19 fiscal gap.

4/ The program balance is measured as below-the-line balance minus net lending.

5/ Sum of overall balance (above the line), interest expense, and domestic and external net lending.

Annex II. Public Debt Sustainability Analysis¹

Results from an updated DSA using the staff's baseline projections indicate that, despite recent shocks and further deterioration in macro framework compared to previous DSA (May 2020), Armenia's public debt remains sustainable, but both the high share of foreign currency debt and a sharp rise in the debt level are important sources of vulnerability. Alternative scenarios and stress tests suggest that shocks to growth and the exchange rate would have the largest impact on debt dynamics and government financing needs.

1. Debt will increase substantially in 2020 due to lower tax revenue, and higher spending related to pandemic and military needs, although reflecting measures starting in 2022, it is projected to decline to around 61 percent over the medium-term. The fiscal deficit is estimated to widen to 7 percent of GDP in 2020 (relative to 5 percent in the second review). Lower growth, and hence lower tax revenue, as well as higher expenditure on health, anti-crisis support, and military needs have contributed to the rise in the deficit this year. In 2021, the budget envisages a deficit of 5½ percent of GDP, which the government plans to finance from IFIs and international markets (around \$700 million combined), with a further AMD200 billion on domestic markets. As a result, the end-2021 central government debt will be around 69 percent of GDP. After 2021, gross financing needs are estimated to revert to the norm—around 7–8 percent of GDP to 2024—and increase to 10.2 percent in 2025 due to expected repayments on existing Eurobonds. After using the fiscal rule's escape clause during 2020–21², the authorities are committed to bringing the central government debt below 60 percent of GDP by 2026. The baseline scenario shows this goal is achievable given planned revenue measures and current spending restraint. The share of FX-denominated debt is projected to be around 70.9 percent of GDP in 2025, due to sizable planned external financing in 2021.

2. Baseline projections are subject to significant uncertainty. Historically, Armenian growth, primary balance, and inflation have all been volatile, which implies potential uncertainty in the baseline projections. Assuming the symmetric distribution of shocks, a fan chart for the public debt-to-GDP ratio—corresponding to the range between the 10th and 90th percentiles—points to a range between 49 and 82 percent in 2020 and between 24 and 83 percent in 2025. An asymmetric fan chart, which rules out real exchange rate depreciation, suggests that debt could range between 40 and 98 percent of GDP at the end of the projection horizon.

3. The heat map highlights vulnerabilities stemming from debt level, large external public debt, and market perception. The rise in public debt poses sustainability risks, especially if Armenia faces deeper macroeconomic shocks. FX-denominated debt and debt held by non-residents remain important risk factors for debt sustainability. A depreciation of the exchange rate would worsen the debt outlook as indicated by the relevant stress test (see Figure A4).

¹ The coverage of public debt is general government debt and debt of the CBA.