

SU/20/175

December 11, 2020

**The Acting Chair's Summing Up  
Republic of Armenia—Third Review Under the Stand-By Arrangement  
and Modification of Performance Criteria  
Executive Board Meeting 20/119  
December 11, 2020**

Executive Directors commended Armenia for its satisfactory performance under its Fund-supported program, especially given the major shocks it has faced this year. They recognized the authorities' strong and ongoing commitment to the program's objectives and noted that containing a second wave of the pandemic and continuing timely and targeted policy support, remain essential in the near term. Recognizing the importance of transparency and accountability for COVID-19 related expenditures, they commended the authorities for the publication of all COVID-19 support measures and for their commitment to have these outlays audited.

Directors supported the 2021 budget fiscal stance to accommodate the revenue shortfalls and maintain space for targeted and temporary spending to meet pandemic-related health and socio-economic needs. They noted that these measures should be phased out as the recovery gathers pace.

Directors welcomed the authorities' ongoing commitment to a strong fiscal framework beyond the pandemic, and to medium-term debt sustainability guided by their fiscal rule and debt anchor. To this end, they emphasized the importance of intensifying revenue mobilization efforts, as outlined in the program. Aided by an expenditure review, current spending restraint to ensure space for social and infrastructure priorities will also be critical.

Directors agreed that the current accommodative monetary policy stance is appropriate. The reduction in the policy rate this year is expected to increase liquidity in the banking system and support domestic credit and the economy. They recommended the Central Bank of Armenia (CBA) to continue to carefully monitor market developments and stand ready to adjust its monetary stance, as necessary, while maintaining exchange rate flexibility under its inflation targeting framework.

Directors noted the need to be ready to act if financial stability risks emerge. While they welcomed the macroprudential measures implemented to mitigate the impact of recent shocks on the banking system, they underscored that weak macroeconomic conditions and continued high uncertainty could impact banks' asset quality and prolong the rise in NPLs.

They encouraged the CBA to continue to identify vulnerabilities and risks in the banking system, while standing ready to take relevant regulatory actions.

Directors underlined that implementation of the authorities' structural reform agenda remains critical to support the economic recovery and promote inclusive growth. These reform efforts should be focused on steps to improve the business climate and support SMEs, strengthen the governance framework, and continued support to the health and education sectors.