INTERNATIONAL MONETARY FUND

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REPUBLIC OF ARMENIA

June 2025

FIFTH REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MODIFICATION OF THE MONETARY POLICY CONSULTATION CLAUSE—PRESS RELEASE; AND STAFF REPORT

In the context of the Fifth Review under the Stand-by Arrangement, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on April 10, 2025, with the officials of the Republic of Armenia on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 6, 2025.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 25/222

IMF Executive Board Completes the Fifth Review Under the Stand-By Arrangement with Armenia

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the fifth review under the Stand-By Arrangement (SBA) with Armenia, providing the country with access equivalent to SDR 18.4 million (about US$26.1 million). The Armenian authorities continue to treat the arrangement as precautionary.*
- *Economic activity remains strong. Real GDP growth is expected to reach 4.5 percent in 2025 as external growth drivers continue to taper off amid higher global uncertainty.*
- *The SBA aims to support the government's policy and reform agenda to preserve economic and financial stability and support strong, inclusive, and sustainable growth.*

Washington, DC – **June 25, 2025:** The Executive Board of the International Monetary Fund (IMF) completed the fifth review under the Stand-By Arrangement (SBA) with Armenia. The completion of the review enables access to an amount equivalent to SDR 18.4 million (about US$26.1 million), bringing total access to the equivalent of SDR 110.4 million (about US$156.9 million). The SBA was approved by the IMF Executive Board on December 12, 2022 (see Press Release No. 22/429). The Armenian authorities continue to treat the arrangement as precautionary. The Executive Board's decision was taken on a lapse-of-time basis.[1]

Armenia's economic activity remains strong. Real GDP growth reached 5.9 percent in 2024 and is expected to return to its long-term trend of 4.5 percent in 2025 as trade and services normalize. Inflation is expected to remain around the Central Bank of Armenia's (CBA) target by end-2025. Risks to this outlook are elevated, stemming from the unprecedented uncertainty related to the ongoing global trade tensions and potential slowdown in the growth of trading partners. Regional geopolitical shifts, which could lead to a reversal of recent capital inflows and foreign exchange (FX) volatility, also weigh on the outlook.

The slowdown in external demand, lower remittances inflows, and robust domestic demand, are projected to widen the current account deficit to 4.5 percent of GDP in 2025. Nonetheless, external and financial sector buffers remain strong.

The 2025 budget deficit target of 5.5 percent of GDP is appropriate, accommodating priority spending needs, including on national security, refugee integration, and infrastructure development. The adopted 2026-28 medium-term expenditure framework will reduce the fiscal deficit in 2026 to 4.5 percent, supporting macro-fiscal stability while making room for well-targeted, priority social and development spending.

[1] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

The program is broadly on track. All end-December 2024 quantitative performance criteria (QPCs) have been met except for a small breach of the QPC on budget domestic lending. The end-December 2024 inflation was within the inner Monetary Policy Consultation Clause bands. Progress on structural benchmarks continues, although with some delays.

The ongoing economic uncertainty underscores the need for prudent policies and steadfast implementation of structural reforms:

- Fiscal policy should continue to balance the need to support national spending priorities while maintaining macro-fiscal stability, with further efforts to mobilize revenue and enhance spending efficiency.
- The CBA should remain proactive in keeping inflation anchored, with future interest rate decisions guided by developments in inflation and inflation expectations. The flexible exchange rate should continue to serve as a key shock absorber. Foreign exchange interventions should be limited to addressing disorderly market conditions and seeking opportunities to bolster FX reserves through purchases when conditions allow.
- To sustain long-term growth, structural reforms should continue to advance reforms focused on improving labor market flexibility, diversifying exports, enhancing supervisory frameworks, and strengthening governance.

Table 1. Armenia: Selected Economic and Financial Indicators, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Act.				Proj.			
National income and prices:									
Real GDP (percent change)	12.6	8.3	5.9	4.5	4.5	4.5	4.5	4.5	4.5
Final consumption expenditure, Contrib. to Growth	3.7	5.3	3.3	3.8	2.5	2.9	2.9	2.9	2.9
Gross fixed capital formation, Contrib. to Growth	2.7	3.1	2.6	2.6	2.5	2.1	2.1	2.1	2.1
Changes in inventories, Contrib. to Growth	-0.3	0.0	-0.3	-1.8	0.0	0.0	0.0	0.0	0.0
Net exports of goods and services, Contrib. to Growth	6.2	-0.1	0.0	0.3	-0.5	-0.5	-0.5	-0.5	-0.5
Gross domestic product (in billions of drams)	8,501	9,493	10,193	10,926	11,760	12,658	13,624	14,665	15,784
Gross domestic product (in millions of U.S. dollars)	19,514	24,186	25,705	26,437	26,864	28,084	29,724	31,603	33,547
Gross domestic product per capita (in U.S. dollars)	6,661	8,159	8,671	8,917	9,060	9,471	10,024	10,656	11,311
CPI (period average; percent change)	8.7	2.0	0.3	3.2	3.0	3.0	3.0	3.0	3.0
CPI (end of period; percent change)	8.3	-0.6	1.5	3.3	3.0	3.0	3.0	3.0	3.0
GDP deflator (percent change)	8.0	3.1	1.4	2.6	3.0	3.0	3.0	3.0	3.0
Unemployment rate (in percent)	13.5	12.4	13.9	13.5	14.0	14.0	14.0	14.0	14.0
Investment and saving (in percent of GDP)									
Investment	22.4	22.9	23.8	21.2	21.2	21.2	21.1	21.1	21.1
National savings	22.7	20.6	20.0	16.7	16.4	16.5	16.4	16.3	16.3
Money and credit (end of period)									
Reserve money (percent change)	5.0	-4.0	13.8	9.8	9.8	9.8	9.8	9.8	9.8
Broad money (percent change)	16.1	17.4	13.7	12.5	12.5	12.5	12.5	12.5	12.5
Private sector credit growth (percent change)	4.5	18.4	31.7	13.3	13.3	13.3	13.3	13.3	13.3
Central government operations (in percent of GDP)									
Revenue and grants	24.3	24.9	25.3	25.1	25.4	25.5	25.5	25.5	25.5
Of which: tax revenue	21.9	22.5	22.4	23.0	23.3	23.4	23.4	23.4	23.4
Expenditure	26.4	26.9	29.0	30.6	29.9	29.8	29.3	29.0	28.8
Overall balance on a cash basis	-2.1	-2.0	-3.7	-5.5	-4.5	-4.3	-3.8	-3.5	-3.3
Public and publicly-guaranteed (PPG) debt (in percent of GDP)	49.2	50.5	50.0	54.2	55.9	57.4	57.6	57.4	57.1
Central Government's PPG debt (in percent of GDP)	46.7	48.2	48.0	52.4	54.3	56.0	56.4	56.4	56.1
Share of foreign currency Central Government PPG debt (in percent)	62.1	52.7	48.2	47.7	46.9	46.3	46.3	46.5	46.9
External sector									
Exports of goods and services (in millions of U.S. dollars)	10,118	14,338	18,618	12,167	12,292	12,537	12,863	13,228	13,611
Exports of goods and services (percent change)	100.8	41.7	29.8	-34.7	1.0	2.0	2.6	2.8	2.9
Imports of goods and services (percent change)	66.8	41.6	31.3	-30.7	1.2	2.4	2.9	2.9	3.1
Current account balance (in percent of GDP)	0.3	-2.3	-3.9	-4.5	-4.8	-4.8	-4.8	-4.8	-4.8
FDI (net, in millions of U.S. dollars)	926	527	76	397	454	468	483	529	534
Gross international reserves (in millions of U.S. dollars)	4,112	3,610	3,679	3,427	3,561	3,665	3,768	3,869	3,969
Import cover 1/	3.4	2.3	3.3	3.1	3.1	3.1	3.1	3.1	3.1
End-of-period exchange rate (dram per U.S. dollar)	394	405	397	…	…	…	…	…	…
Average exchange rate (dram per U.S. dollar)	436	392	397	…	…	…	…	…	…

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

1/ Gross international reserves in months of next year's imports of goods and services, including the SDR holdings.

INTERNATIONAL MONETARY FUND

REPUBLIC OF ARMENIA

June 6, 2025

FIFTH REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MODIFICATION OF THE MONETARY POLICY CONSULTATION CLAUSE

EXECUTIVE SUMMARY

Context. Armenia's economic outlook is broadly favorable. Real GDP growth remains strong, gradually decelerating from its previous highs as temporary external drivers have continued to dissipate**.** Inflation has picked up in recent months but remains moderate, around the CBA's target. The current account is projected to be close to its norm, with transit trade expected to dissipate in 2025. Risks to the outlook stem mainly from global trade tensions and geopolitical shifts, and a slowdown in main trading partners.

The SBA-supported program is broadly on track. The authorities have met all end-December quantitative performance criteria (QPCs) except for a small breach of the QPC on budget domestic lending. The end-December inflation was within the inner MPCC bands. Progress on structural benchmarks (SB) continues with all December SBs implemented, although some with delays.

Policy priorities. The uncertain outlook calls for continued prudent policies and steadfast implementation of structural reforms. Fiscal policy should continue to strike a balance between the need to support national spending priorities and preserve macro-fiscal stability, with continued revenue mobilization and spending efficiency efforts. The CBA should remain proactive to keep inflation anchored, with future interest rate decisions guided by developments in inflation and inflation expectations. Structural reforms should focus on improving labor market flexibility, diversifying exports, enhancing supervisory frameworks, and strengthening governance.

Fifth review. Given the authorities' strong commitment to the program's objectives, staff supports their request for completion of the fifth review, request for a waiver of nonobservance of a performance criterion, and modifications of MPCC. Upon completion of this review, a disbursement of SDR18.4 million will be made available to Armenia. The authorities continue to treat the SBA as precautionary.

Approved By
Thanos Arvanitis (MCD) and Jacques Miniane (SPR)

Discussions were held during March 31–April 10, 2025, in Yerevan. The team comprised I. Petrova (Head) and A. Tieman (Incoming head); N. Belhocine, and H. Fuje (MCD); A. Carvalho (MCM); Y. Hashimoto (SPR); E. Prifti (FAD); U. Rawat (Resident Representative), M. Aleksanyan, V. Janvelyan, and L. Karapetyan (IMF Office). M. Al Taj and M. Atamanchuk (MCD) joined meetings virtually. J. Clicq and V. Rashkovan (OED) attended some meetings. B. Laumann and X. Shen (MCD) assisted with document preparation. The mission met with Prime Minister Pashinyan, Deputy Prime Ministers Grigoryan and Khachatryan, Governor of the Central Bank of Armenia Galstyan, Minister of Finance Hovhannisyan, Minister of Economy Papoyan, and other senior government officials.

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DEVELOPMENTS AND PROGRAM IMPLEMENTATION

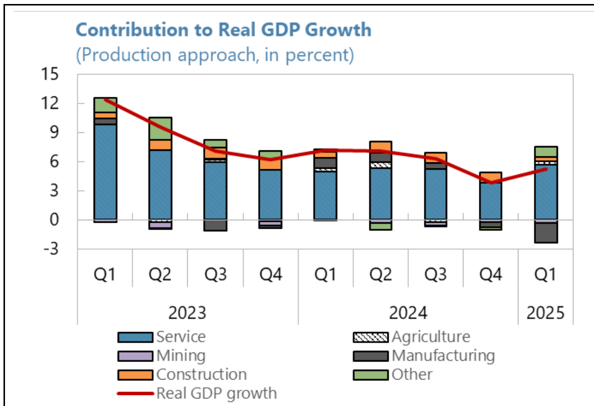
A. Context

1. Armenia's three-year Stand-By-Arrangement (SBA) is broadly on track. The economy continues to perform strongly, gradually normalizing after three years of above potential growth that benefited from strong financial inflows from Russia but also weathered considerable headwinds from a challenging security situation. The authorities' proactive policy management has been instrumental in preserving macroeconomic stability, supported by the SBA, which the authorities continue to treat as precautionary.

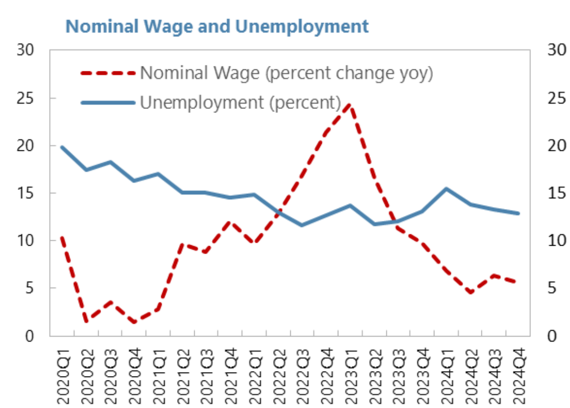
2. The announced agreement on the terms of a draft peace treaty provides a window of opportunity for Armenia and Azerbaijan. Significant progress has been made in negotiating a peace treaty with Azerbaijan, however, completion of the agreement is still uncertain. The Armenian authorities have expressed their commitment to the peace process with Azerbaijan, as well as to improving diplomatic and economic ties with Türkiye.

B. Recent Economic Developments and Risks

3. Economic activity has decelerated from its previous highs as temporary external growth drivers have waned. GDP grew by 5.9 percent in 2024, down from 8.3 percent in 2023, largely due to moderating trade and tourism flows. Strong domestic consumption and private investment, buoyed by the construction and service sectors, supported growth. Preliminary data suggests that growth decelerated further to about 5.2 percent y-o-y in 2025Q1, reflecting normalization of external demand. Labor market conditions have slightly eased[1] and the unemployment rate reached close to 13 percent in 2024Q4. Nominal wage growth has also decelerated to just 4 percent y-o-y in February 2025.



Sources: National authorities and IMF staff calculations.

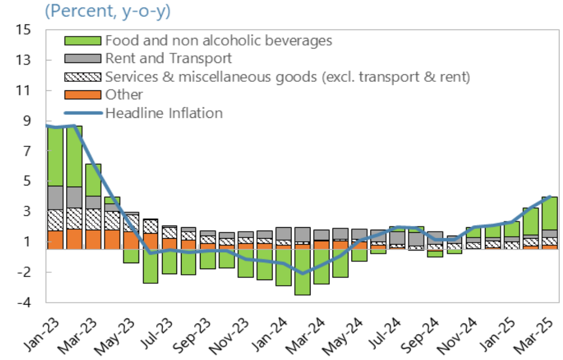


Sources: Haver and national authorities.

[1] For details, Central Bank of Armenia, 2025, Monetary Policy Report 2025Q1.

4. Inflation has remained subdued. Headline inflation gradually picked up to 3.2 percent year-on-year in April 2025, around the CBA's new target of 3.0 percent.[2] The increase has been primarily driven by higher food prices and adjustments to regulated tariffs.

Contributions to Inflation
(Percent, y-o-y)



Source: Haver.

5. The current account deficit widened somewhat to 3.9 percent of GDP in 2024, while gross international reserves strengthened further, supported by capital inflows and FX purchases. Transit trade surged in the first half of 2024 but has declined since then, as have tourism exports.[3] However, steady commercial bank capital inflows have allowed the CBA to continue purchasing foreign exchange, including about US$519 million so far in 2025. Gross international reserves stood at US$3.9 billion (124 percent of the ARA metric) at end-April 2025, supported also by the issuance of a US$750 million Eurobond.[4]

6. The 2024 fiscal deficit was limited to 3.7 percent of GDP—comfortably meeting the program target. Lower than anticipated excise tax, CIT, and PIT collections (0.4 percent of GDP relative to the fourth review projection) were more than offset by higher non-tax revenues (0.6 percent of GDP), including dividends from the Zangezur Copper and Molybdenum mines (0.4 percent of GDP). Current spending accommodated large social protection needs, including through higher health and education spending. Capital spending accelerated relative to 2023 but remained below staff's projections mainly due to under-execution of domestically financed projects. Central government debt remains moderate at 48 percent of GDP.

7. Financial system indicators remain healthy. At around 20 percent in February, the banks' capital adequacy ratio (CAR) has been well above the minimum requirement (Figure 5, Table 5) of 16.75 percent for systemic banks and 15.25 percent for non-systemic banks. Albeit declining, liquidity remains adequate and above prudential requirements. NPLs reached 1.5 percent in February and banks' profitability remains strong, with return-on-equity close to 18 percent. Buoyant loan growth of 25 percent y-o-y in February was driven by construction, consumer, and mortgage loans.

C. Outlook and Risks

8. Growth is projected to return to its potential rate of 4.5 percent in 2025 as trade and services normalize. Domestic demand will be supported by the lagged effects of monetary policy

[2] The CBA lowered the inflation target from 4 percent to 3 percent in December 2024.

[3] Preliminary data shows over $400 million (1.7 percent of GDP) of errors and omissions, likely reflecting under-reported remittances.

[4] On March 5, 2025, the authorities issued a Eurobond with a 7.1-percent yield and a 10-year maturity. This was Armenia's first sovereign bond issuance since January 2021.

easing, including buoyant credit growth, and ongoing increase in public investment, while external demand is projected to continue to weigh down on growth.

9. Inflation is expected to remain around the CBA's target. Food prices are expected to remain the primary driver of inflation, but these are expected to be offset by easing domestic demand pressures. However, the volatility in international commodity prices and strong pass-through from global to domestic prices add significant uncertainty to the inflation trajectory.

10. The current account deficit is projected to widen to 4.5 percent of GDP in 2025, reflecting lower external demand and remittances. Transit trade is expected to peter out, with both exports and imports projected to decline by more than 30 percent in 2025. The 10 percent tariff imposed on Armenia's relatively small export volume to the United States is expected to have only a minimal direct effect.[5] Gross international reserves are projected to decline to about US$3.4 billion (110 percent of the ARA metric) by end-2025, mainly due to large government debt amortizations and higher imports.

11. The baseline is subject to considerable uncertainty and risks (Annex I). Global trade tensions and investment shocks could lead to a slowdown in major trading partners and tighter financial conditions. A resurgence of global food and energy prices, due to supply-chain disruptions or lower oil production, could lead to a stronger pickup in inflation, especially if accompanied by a currency depreciation. Regional tensions and possible geopolitical shifts could also lead to a reversal of recent capital inflows from Russia and FX volatility, with knock on effects on consumption, imports, and the housing market. On the upside, stronger export demand, faster implementation of broad-based structural reforms, a potential peace agreement with Azerbaijan, and normalization of trade relations with Türkiye could support higher growth.

12. Armenia's strong policy framework provides a buffer against shocks, but the authorities may need to draw on Fund resources in the event of a sizable adverse shock (Annex II). In an illustrative adverse scenario,[6] a decline in exports of goods and services, coupled with a drop in remittances, could significantly widen the current account deficit. This deterioration, together with a decline in capital inflows would exert significant depreciation pressures on the exchange rate and foreign reserves. While the exchange rate remains a main shock absorber, Armenia may need access to financial support from the IMF and other multilateral creditors. Staff would advise the authorities to let automatic stabilizers operate in response to the shock, widening the fiscal deficit, and resume fiscal consolidation when the economy adjusts. The authorities' commitment to prudent policies, including monetary tightening to control inflationary pressures and prioritizing fiscal spending, will help preserve fiscal and external sustainability.

[5] Armenia's trade with the USA amounted to about US$220 million in 2023, with Armenia exporting less than US$50 million (less than ¾ percent of its total goods exports) and running a goods deficit vis-à-vis the USA of about US$130 million.

[6] The assumptions used in the adverse scenario are more severe than those in the April 2025 World Economic Outlook,, Box 1.1., scenario A.

Armenia: Impact of a Plausible External Shock

	2025		2026		2027	
	Baseline	Adverse Scenario	Baseline	Adverse Scenario	Baseline	Adverse Scenario
National Income and Prices						
Real GDP (percent change)	4.5	2.5	4.5	3.0	4.5	4.5
CPI (Period average; percent change)	3.2	4.6	3.0	4.0	3.0	3.0
Overall Balance on a cash basis (in percent of GDP)	-5.5	-6.7	-4.5	-4.8	-4.3	-4.6
Central Government Debt (in percent)	52.7	59.3	54.6	60.8	56.4	60.7
Current Account Balance (in percent of GDP)	-4.5	-6.9	-4.8	-7.3	-4.8	-6.4
Gross international Reserves (in millions of U.S. dollars)	3427	2163	3561	2238	3665	2604

Source: National authorities, and IMF staff calculations and projections.

D. Program Performance

13. The program is broadly on track (MEFP, Tables 1 and 2a):

- *All but one QPC and indicative targets (IT) were met (MEFP, Table 1).* Key program targets were met, including the fiscal balance, the NIR target, etc. The end-December inflation was within the MPCC inner band. However, the target on budget domestic lending was missed by a small amount (AMD 1.5 billion) due to unplanned budgetary lending to SOEs that supported health, sports and culture.[7]

- *Progress was also made on structural reforms, although with some delays (MEFP, Table 2a).* The employment strategy was approved in December although final costing is still pending. Legislative proposals to raise 0.75 percent of GDP in additional tax revenues over 2024–26 were submitted to parliament at end-December and have already been approved. The authorities have also met the continuous structural benchmark on tax incentives. The CBA finalized the impact study of the interest rate risk in the banking book with a slight delay. The CBA and the MoF have made significant progress in their discussions on information sharing and understanding of the potential modalities for providing emergency resolution funding, although further discussions are needed on the potential for other amendments in Armenia's legal framework to support the effectiveness of the new resolution law. The export strategy is expected to be approved by end-June.

POLICY DISCUSSIONS

Discussions focused on the outlook and risks, the preparation of the medium-term expenditure framework, and policies to achieve the agreed medium-term fiscal path. Staff also discussed progress in

[7] The extension of the loans—about 0.01 percent of GDP—was intended to improve SOEs' incentives and budget discipline by discontinuing unconditional subsidies to SOEs.

reforms to strengthen SOE management and reduce fiscal risks, enhance monetary policy credibility and financial sector supervision, and boost export diversification and improve the business environment.

A. Rebuilding Fiscal Buffers

14. The 2025 budget deficit target is achievable, and the fiscal policy stance remains appropriate. Tax collection has been strong in 2025Q1 driven by recovering VAT, CIT and PIT proceeds, as well as the authorities' new tax policy measures, which are expected to yield 0.4 percent of GDP in 2025 (Text Table 1). The authorities continue to prioritize spending on national security and support to ethnic Armenian refugees and remain cautious in their overall spending in view of rising global uncertainties. Overall, they are on track to meet all fiscal targets.

Text Table 1. Armenia: Tax Policy Measures Legislated for 2024–26
(Percent of GDP)

Tax policy measure	2024	2025	2026
Increase of excise tax rates and expansion of the scope of excisable goods	0.14	0.13	0.12
Increase in turnover tax rates and exclusion of some professional services from turnover tax	-	0.17	0.06
Increase in environmental taxes on imported vehicles, and duties on gambling and taxi services	0.04	0.11	0.06
Total tax policy measures	**0.18**	**0.40**	**0.24**
Cumulative total of tax policy measures (2024–26)	**0.18**	**0.58**	**0.83**

Sources: MOF and IMF staff estimates.

15. The authorities' planned medium-term fiscal consolidation will preserve fiscal sustainability, while making room for well-targeted, priority social and development spending. As a ***prior action***, they have adopted a 2026–28 Medium-Term Expenditure Framework (MTEF) with an overall fiscal deficit target of 4.5 percent of GDP in 2026, a declining deficit thereafter, and a 2028 deficit of no more than 3.8 percent of GDP. Rationalizing inefficient spending will support this medium-term fiscal consolidation. To this end, building on IMF CD support, the authorities are working on identifying measures amounting to 1 percent of GDP in current primary expenditures that will support the 2026 budget preparation (Text Table 2). At the same time, new social programs with potentially large fiscal impact should be carefully designed and prioritized to fit within the existing fiscal space**.** This includes a housing program providing subsidized mortgage lending to ethnic Armenian refugees and universal health insurance (UHI) reform.

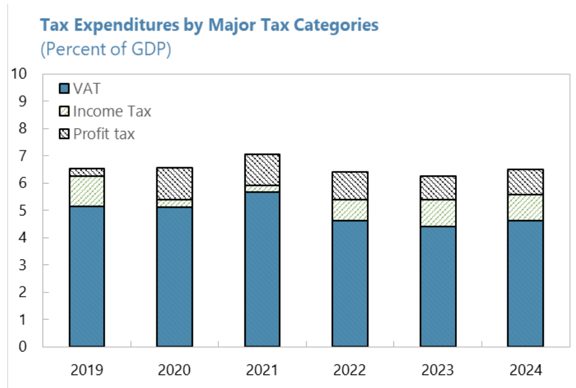
Text Table 2. Armenia: Options for Short-term Expenditure Rationalization
(Percent of GDP, Cumulative Yields)

	2026	2027
Social Benefits	0.50–0.73	0.86–1.30
Wage Bill	0.31–0.46	0.61–0.88
Grants	0.11–0.17	0.22–0.39
Subsidies	0.04–0.05	0.07–0.10
Pillar II Pension Contribution	0.05–0.07	0.09–0.13
Goods & Services	0.05–0.08	0.05–0.08

Source: IMF staff estimates.

16. Decisive reforms to improve revenue mobilization remain critical to support the authorities' consolidation efforts and development priorities.

- *Tax policy reforms.* While the authorities have made progress in raising revenue through tax policy measures, tax expenditures have remained significant, mainly due to generous exemptions on mortgage lending (0.8 percent of GDP) and electric vehicles (0.3 percent of GDP). The ongoing gradual phaseout of the mortgage interest tax credit will reduce tax expenditures in the long run but will remain a large fiscal leakage in the interim. The authorities' plan to revisit vehicle taxation is also welcome; its new design needs to close the tax leakage and address its regressivity. Beyond these measures, introducing a capital gains tax on real estate and financial securities, the design of which is still under consideration, has the potential of increasing revenue by some 0.22 percent of GDP. The authorities' efforts to prevent revenue erosion from tax incentives codified in the Tax Code should be complemented by measures that restrict the use of targeted support in the form of tax credits. Such incentives should be employed only to address market failures and deliver net economic benefits.



Sources: National authorities' estimates.

- *Revenue administration.* Addressing Armenia's income tax gaps—estimated at 1.5-2 percent of GDP—requires more effective revenue administration tools.[8] The ongoing rollout of the universal income tax declaration should improve transparency, broaden the tax base, and strengthen tax compliance. Its success hinges on enhancing taxpayer communication, streamlining filing procedures, upgrading SRC's digital infrastructure, and improving tax

[8] See International Monetary Fund. "Republic of Armenia: Technical Assistance Report-Personal Income Tax and Social Security Contribution Gaps", Technical Assistance Reports 2025, 055 (2025), accessed May 9, 2025, https://doi.org/10.5089/9798229008884.019; and International Monetary Fund. "Republic of Armenia: Technical Assistance Report-Corporate Income Tax Gap Estimation Based on Operational Audits", Technical Assistance Reports 2024, 076 (2024), accessed May 5, 2025, https://doi.org/10.5089/9798400288678.019.

legislation clarity. To cement the reform, completion of the parliamentary approval of tax code amendments empowering the SRC to audit individuals and use third-party information and indirect methods for income verification remains critical. A Tax Administration Diagnostic Assessment Tool (TADAT) review, being undertaken in May 2025, is expected to identify opportunities for the SRC to strengthen its capabilities and help further upgrade its revenue collection capacity.

17. Advancing public financial management (PFM) reforms is also needed to ensure efficient use of public resources.

- *Fiscal Framework.* The MoF is completing a thorough evaluation of the MTEF and annual budget process, seeking to ensure a more strategic focus of the MTEF on medium-term macroeconomic forecasts, fiscal deficit path, and broad expenditure ceilings. This top-down approach would allow policymakers to thoroughly evaluate and prioritize new policy proposals within the confines of the MTEF during the budget preparation cycle. A three-year budget framework covering the period 2026–28 with indicative expenditure envelopes will incentivize line ministries to improve baseline spending projections and new program planning and will facilitate more effective implementation of capital investment projects.

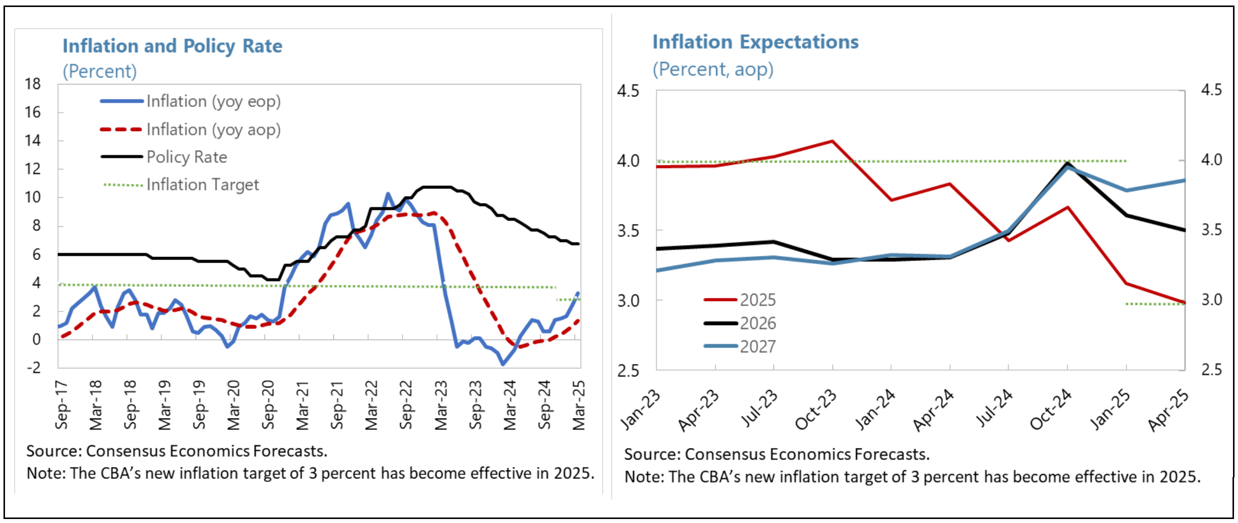
- *Public Investment Management (PIM).* A newly established unit within the Ministry of Finance will take over the institutional management of PIM and be responsible for integrating public investment planning and oversight more closely with the broader budget process, ensuring that investment decisions are well-informed, financially sustainable, and aligned with national priorities. An upcoming Public Investment Management Assessment update will identify gaps in the new public investment institutions and practices and key reforms to enhance the efficiency, transparency, and impact of public investment projects.

- *Fiscal Risk Management.* The MoF is in the final stages of developing a comprehensive state ownership policy, giving it more authority and tools to monitor SOEs' financial health, liabilities and associated fiscal risks and a roadmap for divesting from SOEs and minority stakes in other commercial enterprises that do not align with the government's public service or strategic objectives. The MoF' plan to establish clear rules and criteria for budget lending to SOEs in the Budget System Law should ideally include a requirement for annual budget limits for such lending and establish a process and assessment criteria for issuing budget lending and guarantees at the MOF. A flurry of recent PPP and government guarantee contracts has also raised the urgency to contain contingent liabilities by: (i) submitting legislation limiting the government's exposure to contingent liabilities and improving their transparency and fiscal reporting; (ii) conducting in-depth due diligence on all currently active PPP contracts; and (iii) building institutional capacity to monitor and manage PPP projects.

- *Organization of the Ministry of Finance.* The MoF is taking steps to complete its longstanding restructuring. While the reform aims to ensure more effective use of MOF's managerial resources and strategic capacity, it also needs to establish clear lines of responsibility and delegation, enhance coordination across MoF's core functions, and strengthen cooperation with line ministries in budget preparation and implementation.

B. Maintaining a Strong Monetary Policy Framework and Financial Sector Resilience

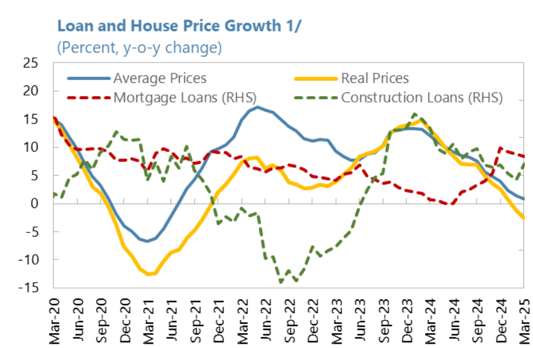
18. The CBA has succeeded in maintaining low inflation but needs to remain vigilant. Amid low inflationary pressures, the CBA reduced the policy rate by a cumulative 400 basis points since June 2023, bringing it to 6.75 percent as of February 2025, and have held policy rates steady since then. The policy rate is now around its neutral level, and near-term inflation expectations are hovering around the CBA's target of 3 percent. Nonetheless, in the context of elevated uncertainty, including about the path of commodity prices, the CBA should continue to monitor economic developments cautiously. If inflation were to surprise on the upside or inflation expectations drift above target, the CBA should stand ready to gradually raise policy rates (Figure 4).



Source: Consensus Economics Forecasts.
Note: The CBA's new inflation target of 3 percent has become effective in 2025.

Source: Consensus Economics Forecasts.
Note: The CBA's new inflation target of 3 percent has become effective in 2025.

19. The CBA remains committed to the flexible exchange rate regime and strong international reserve buffers. Amid benign market conditions and elevated government external debt service needs, the CBA's efforts to preserve reserves buffers have contributed to a relatively stable exchange rate vis-à-vis the US dollar. Going forward, while FX sales should remain confined to addressing disorderly market conditions, the CBA should continue seeking opportunities to bolster FX reserves through purchases when conditions allow to ensure that reserve buffers remain comfortable.



Sources: Haver, ARMSTAT and IMF staff calculations.
1/ Average prices of apartments in Yerevan.

20. The CBA should also remain vigilant in monitoring financial sector risks.

- *Housing market risks.* Following years of strong growth, real estate prices have decelerated, reflecting the broader normalization of economic activity. Mortgage lending growth peaked at about 37 percent at end-2024 due to the expected phaseout of the mortgage interest tax credit and has since decelerated. The CBA had appropriately raised the countercyclical capital buffer to 1.75 percent, with effect in May 2025, providing banks with adequate buffers to address credit risks. However, should signs of housing market overheating reemerge or mortgage lending continues to increase at its recent pace, the CBA should recalibrate its macroprudential tools, including by raising the risk weights for loans to the construction sector and introducing new borrower-based macro-prudential measures.[9] To this end, the CBA has committed to refine its methodology for monitoring borrower-based indicators to ensure more granular understanding of banks' exposure to housing market risks.

- *Other financial stability risks.* Stress tests show that the banking system has enough capital to withstand shocks. Furthermore, banks have thus far invested the recent inflow of foreign deposits in liquid assets abroad,[10] and the CBA's Liquidity Coverage Ratio (LCR) stress tests suggest that the risks of a potential large deposit outflow are contained. Nonetheless, with nonresident deposits continuing to accumulate, the CBA is appropriately planning to tighten the regulations on the LCR and Net Stable Funding Ratio (NSFR) to stem potential risks related to deposit concentration and foreign currency deposit outflows.

21. Efforts to enhance the supervisory framework and toolkit are advancing. With intensive cross-cutting IMF CD underway, the CBA has adopted a more holistic approach to bank supervision reforms.

- **Risk-based supervision.** Reforms are shifting from focusing on Pillar 2 capital add-ons to better understanding, managing, and measuring risks through enhanced Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review and Evaluation Process (SREP). The recently communicated ICAAP supervisory expectations and completed impact study on interest rate risk in the banking book (IRRBB) will help supervisors and banks improve their risk measurement techniques, and the CBA is building capacity with a new risk analysis department.

- **Early intervention framework.** The CBA has made significant progress in drafting legal amendments introducing supervisory powers to impose early intervention measures and defining risk-based supervision. The draft should provide further clarity on the objectives of risk-based supervision, the role of proportionality, and the supervisory tools and intervention measures. Given the need for further extensive work to ensure such clarity, the preparation of the legal draft will require more time before approval by the CBA board and submission for public consultation by September 2025.

- **Bank resolution law.** An advanced draft has been approved by the CBA Board after undergoing extensive discussions between the CBA and the MOF about information sharing and resolution

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[9] Details on suggested measures can be found in Annex V entitled "Macroprudential Measures to Mitigate Real Estate Sector Risks" of the Armenia: Country Report No 2024/348.

[10] According to BOP data, during 2022Q1-2024Q3, new non-resident deposits in Armenian banks amounted to US$1.8 billion (7.2 percent of 2024 GDP), while banks increased their deposits and portfolio assets abroad by about US$2.0 billion (7.7 percent of 2024 GDP).

funding (Box 1), with details to be ironed out in secondary legislation and subsequent amendments to other laws. The draft will be submitted for cabinet approval by end-June and to parliament by mid-September 2025. Further discussions, beyond the provisions of the resolution law, need to clarify the details of an efficient and confidential process for emergency state assistance in cases where government support is not feasible within the existing budget envelope. Further work will also be required to ensure broader preparedness for systemic crisis management.

Box 1. Bank Resolution Process and Emergency State Assistance

Bank has failed or likely to fail

If CBA determines:
- bank unable or likely to be unable to satisfy creditor claims;
- has violated or is likely to violate main prudential standards;
- bank's liabilities exceed or may exceed its assets; or
- there are grounds to revoke bank license.

Resolution is needed

If CBA/RA determines:
- resolution will ensure financial stability and continuity of bank's critical functions; DGF and MoF are immediately notified.

CBA/RA defines:
- resolution plan and process; resolution tools (sale, bridge bank, AMC, bail-in);

Bank is deemed critical and needs state assistance

If CBA determines:
- there is material risk to destabilize financial system or economy;
- resolution financing, including RF and capital write-off, not sufficient to achieve resolution objectives;
- resolution will stablize situation if funding is available.

Emergency state assistance is initiated

CBA presents to MoF:
- recommendation to provide assistance;
- resolution rational, analysis to achieve objectives through state assitance.

MoF decides:
- if to provide a loan or guarantee to the RF on clearly defined terms.

CBA/MoF determine:
- procedure for emergency assistance in a joint decision.

Source: Draft Republic of Armenia Law on bank Resolution.

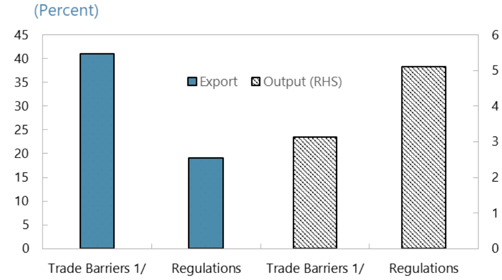
Note: RA - Resolution Authority; RF - Resolution Fund; DGF - Deposit Guarantee Fund.

C. Promoting Strong Growth

22. The authorities reaffirmed their commitment to completing critical structural reforms:

- **Export strategy.** The finalized National Export Strategy defines key steps to overcome existing barriers to export growth and diversification (weak logistics, fragmented institutional framework for export promotion, burdensome regulations, lack of compliance with international standards etc.). Export and growth yields from implementing horizontal

Impact of Trade Reforms on Export and Output
(Percent)



Source: Forthcoming IMF paper on international integration in the CCA.
1/ Include tariff and non-tariff trade barriers.

reforms geared towards improving the overall business environment under the strategy could be significant. Staff analysis indicated that reducing trade barriers and completing regulatory reforms could increase Armenia's exports by more than 20 percent and growth by 3–5 percent and should be prioritized. However, targeted measures, such as special economic zones (SEZs) and other industrial policies, which are likely to incur significant fiscal costs, should be avoided. Armenia's and cross-country experience with SEZs has been disappointing.[11]

- **Employment strategy.** Policy measures outlined in the recently approved employment strategy will be piloted on a small scale to assess their effectiveness before broader implementation. Next steps involve (i) producing an interim report evaluating the effectiveness and costs associated with the ongoing pilot program for skill development and job recruitment of refugees; (ii) identifying and advancing other pilot programs within the MTEF envelope; and (iii) strengthening labor market statistics to ensure well-informed reform implementation. An action plan with costing of measures under the new employment strategy is expected to be adopted in June.

- **Insolvency legislation.** Progress in upgrading the bankruptcy code is ongoing. The revised draft establishes a comprehensive framework for the financial rehabilitation and liquidation processes of corporate and individual entrepreneurs and includes several special proceedings for small businesses and consumers. While the draft has incorporated significant progress in key areas like the treatment of secured creditors, further technical improvements in areas such as commencement standards and claims classification are desirable.

PROGRAM MODALITIES

23. Program conditionality remains appropriate, with some modifications. Staff proposes to reset the MPCC path in line with baseline projections, with symmetric inner and outer bands of the MPCC adjusted accordingly (MEFP Table 1). The May 2025 SB on MTEF adoption was set as a prior action to ensure timely implementation of the fiscal path agreed under the program, with some modifications to make it more specific. The September 2025 SB on early intervention framework is proposed to be modified to tie it more specifically to the adoption of risk-based supervision and to allow sufficient time for public consultation.

24. The program is fully financed under the baseline and Armenia's capacity to repay the Fund is adequate (Table 7)**.** The balance of payment financing gap for the next 12 months is closed, and there are good prospects that there will be adequate financing for the remainder of the program. Armenia's capacity to repay the Fund is adequate and supported by (i) the moderate and stable trajectory of both public and external debt over the medium term; (ii) the authorities' proven ability to follow through on their reform program; and (iii) their long track-record of sound macroeconomic management. IMF payment obligation ratios are projected to be at most 7.0 percent of gross reserves and 1.5 percent of exports in 2025 under the adverse scenario. Similarly,

[11] EBRD, 2024, Transition Report 2024–25.

Fund credit based on existing and prospective drawing would reach, at maximum, 11.7 percent of gross reserves and 2.5 percent of exports in 2025.

25. The CBA has made further progress in addressing the recommendations of the 2023 safeguards assessment. This includes strengthening the CBA Board oversight procedures and staff resources in the internal audit function. Other aspects such as amending the CBA Law to enhance governance and autonomy, establishing a comprehensive risk management function, and divesting from a commercial bank remain in progress. The authorities remain committed to implementing these reforms, along with other recommendations (MEFP, ¶15). Staff will closely monitor developments and support the authorities in these efforts.

STAFF APPRAISAL

26. The Armenian authorities remain strongly committed to achieving program objectives, demonstrating steadfast policy and reform implementation. The economic outlook is favorable, with solid but gradually slowing growth towards potential. In the face of heightened risks, including from geopolitical and trade tensions and possible slowdown among key trading partners, maintaining prudent policies and reforms is essential to ensure stability, protect economic buffers and strengthen resilience.

27. The 2025 fiscal target remains appropriate and achievable. It accommodates elevated security and social spending needs, while keeping other expenditures restrained. However, if growth and revenues exceed expectations, the authorities should use the revenue overperformance to strengthen fiscal buffers and protect against potential future shocks.

28. The authorities' planned medium-term fiscal consolidation is essential to maintain fiscal sustainability. It requires full implementation of already adopted tax policies, effective revenue administration tools, and curtailing tax incentives. Expenditure rationalization needs to focus on improving spending efficiency. Completing ongoing PFM reforms is also crucial to reduce fiscal risks, particularly those related to SOEs, PPPs, and government guarantees.

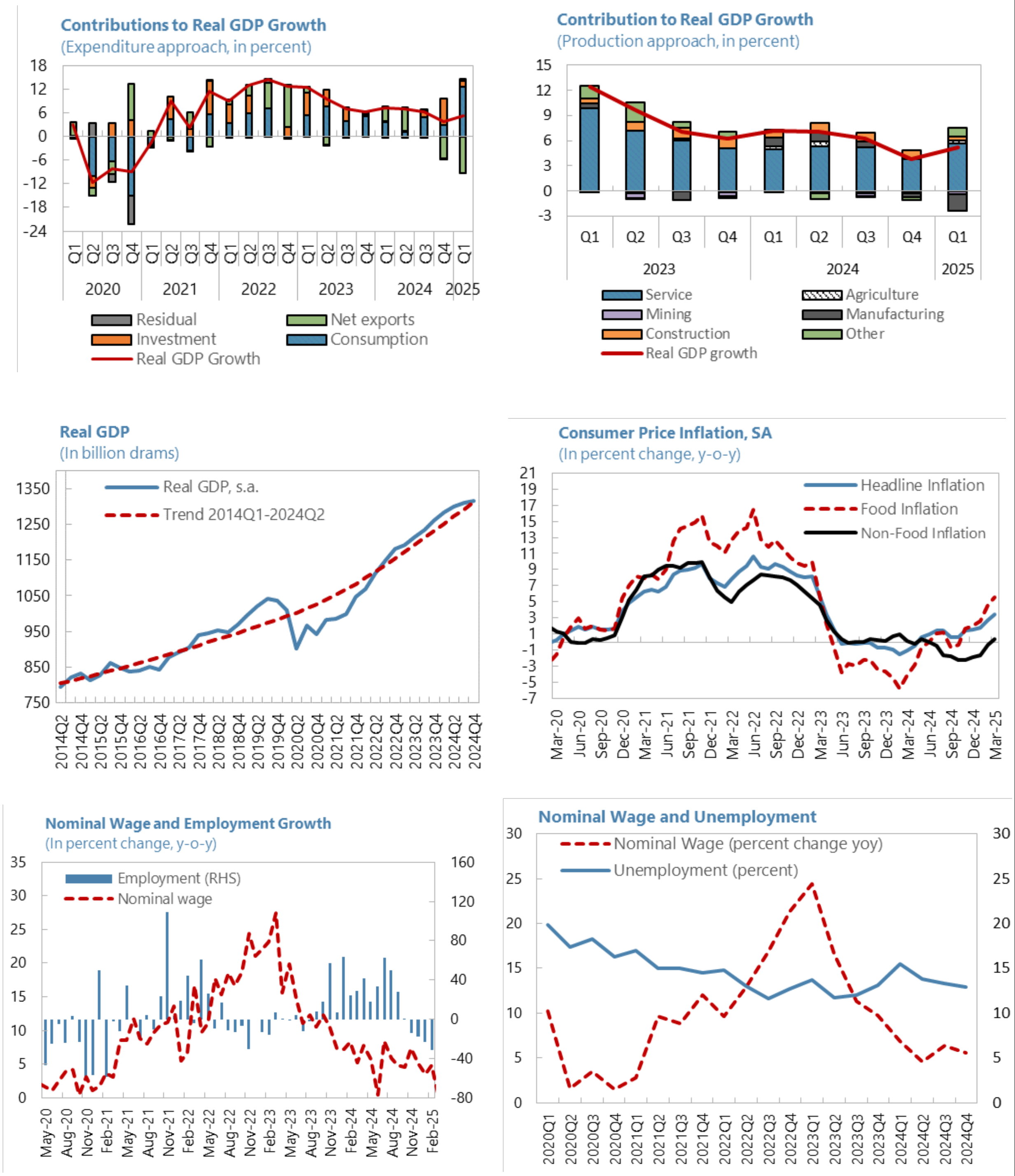
29. The CBA's proactive and decisive actions have ensured low and stable inflation. Further policy rate actions should be guided by the outlook for inflation and inflation expectations. The flexible exchange rate regime has served Armenia well and should continue to act as a key shock absorber. International reserve accumulation should take place as conditions allow to support the government's external debt repayments and import needs.

30. Steps to strengthen the CBA's prudential and supervisory framework will help contain financial sector risks. While banking sector buffers remain healthy, the CBA should continue closely monitoring financial sector risks, especially those related to the housing market and non-resident deposits, and adjust prudential tools as needed. Further strengthening risk-based supervision, enhancing CBA's supervisory powers, and adopting the new bank resolution law remain key to ensuring financial sector stability in the medium term.

31. Structural reforms should continue to prioritize improving the business climate, enhancing productivity, and supporting job creation to sustain long-term growth. Key measures include expanding Armenia’s trade networks and export sophistication and addressing labor force participation challenges. These, together with strengthening governance, corporate transparency, and modernizing the insolvency framework are critical to improving growth outcomes.

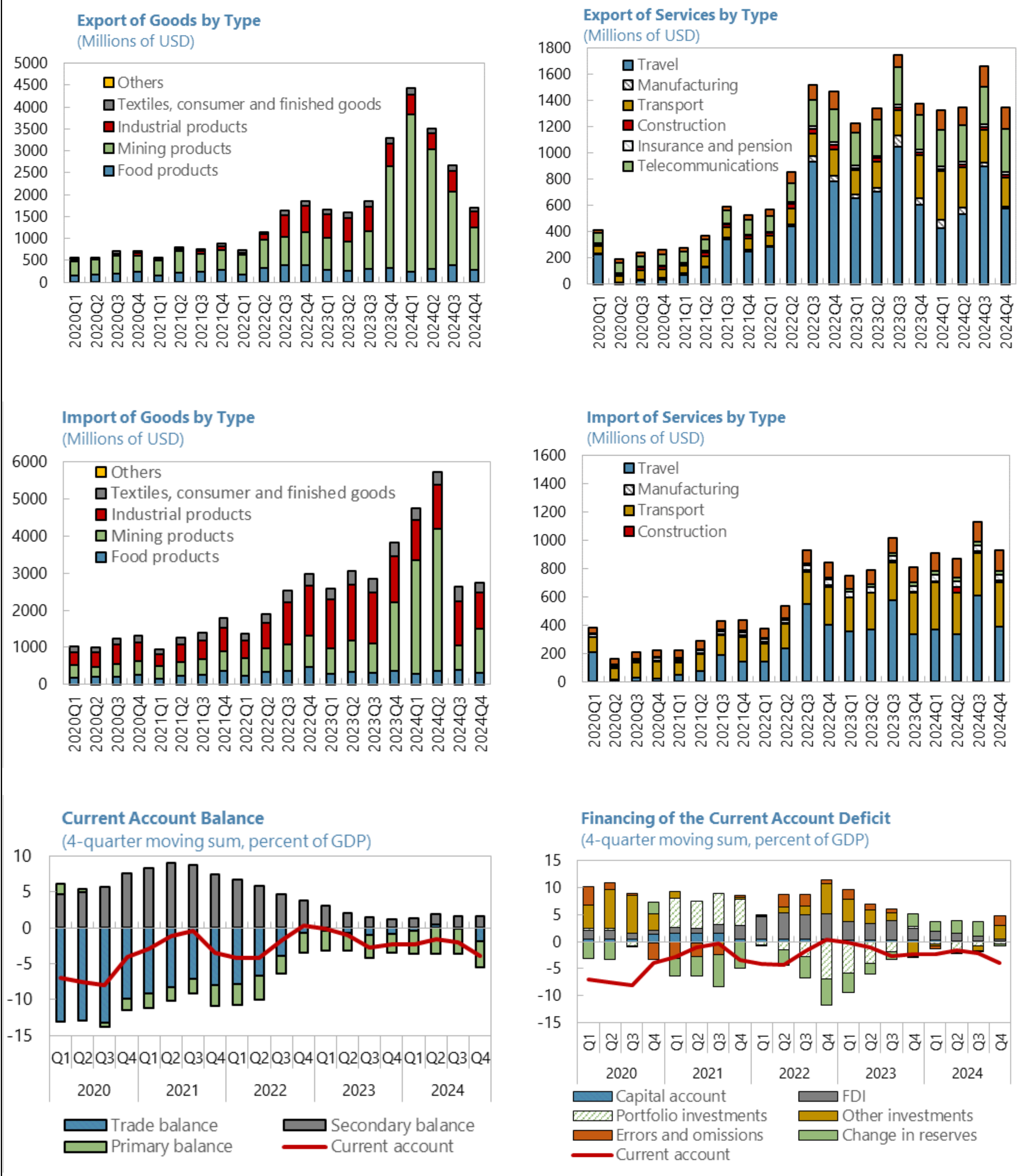
32. Staff supports the authorities’ request for completion of the fifth review, given their strong performance and program ownership. Staff supports the authorities’ request for modifications of the SB and MPCC. Staff also supports the authorities' request for a waiver of the nonobservance of the QPC on budget domestic lending on the ground of the minor nature of the nonobservance. Upon completion of the review, an additional SDR 18.4 million (about $25 million) would be made available to Armenia. The authorities intend to continue treating the arrangement as precautionary.

Figure 1. Armenia: Real Sector Developments



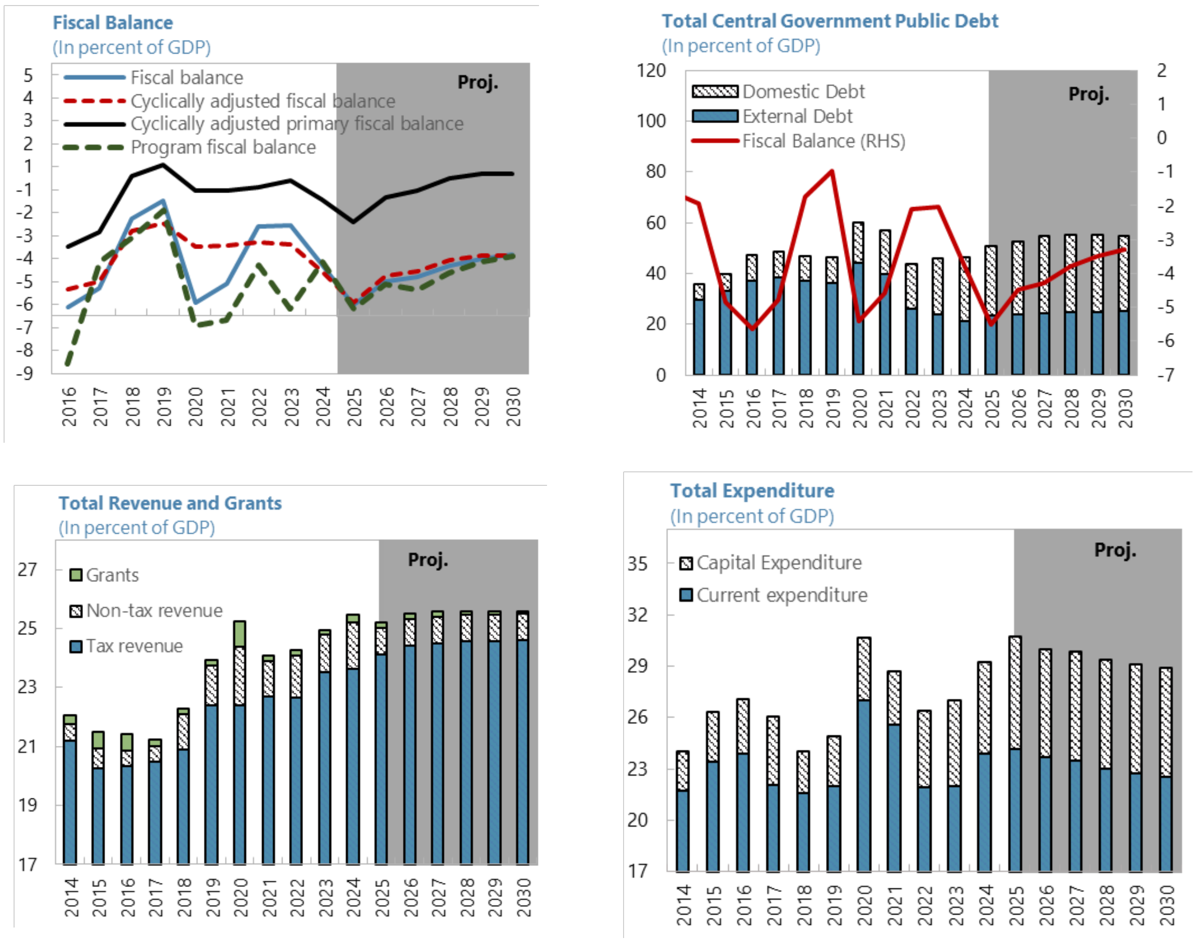
Sources: National authorities, Haver, IMF World Economic Outlook, IMF International Financial Statistics, and IMF staff calculations.

Figure 2. Armenia: External Developments



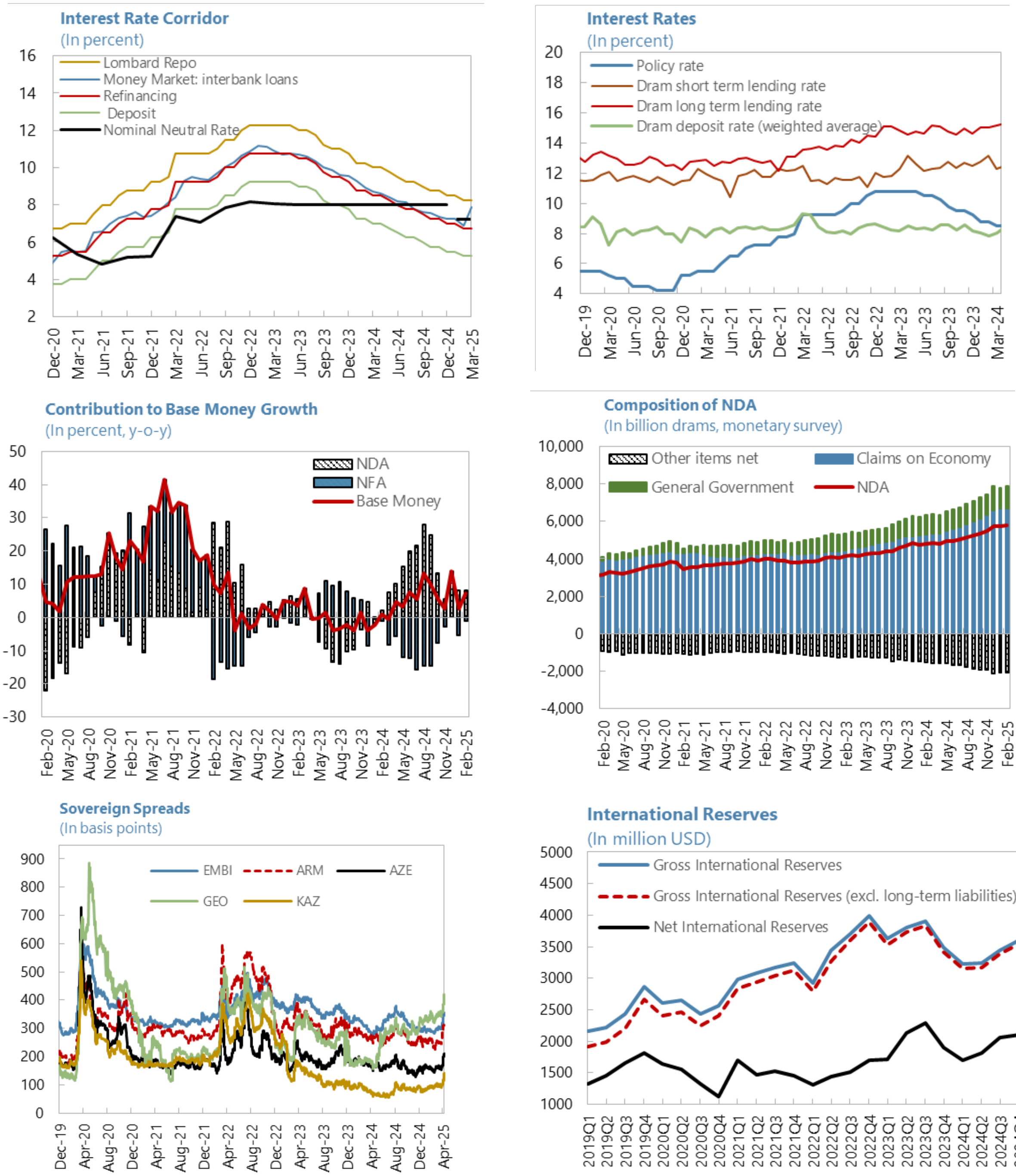
Sources: National authorities, IMF Information Notice Systems Database, and IMF staff calculations.

Figure 3. Armenia: Fiscal Developments



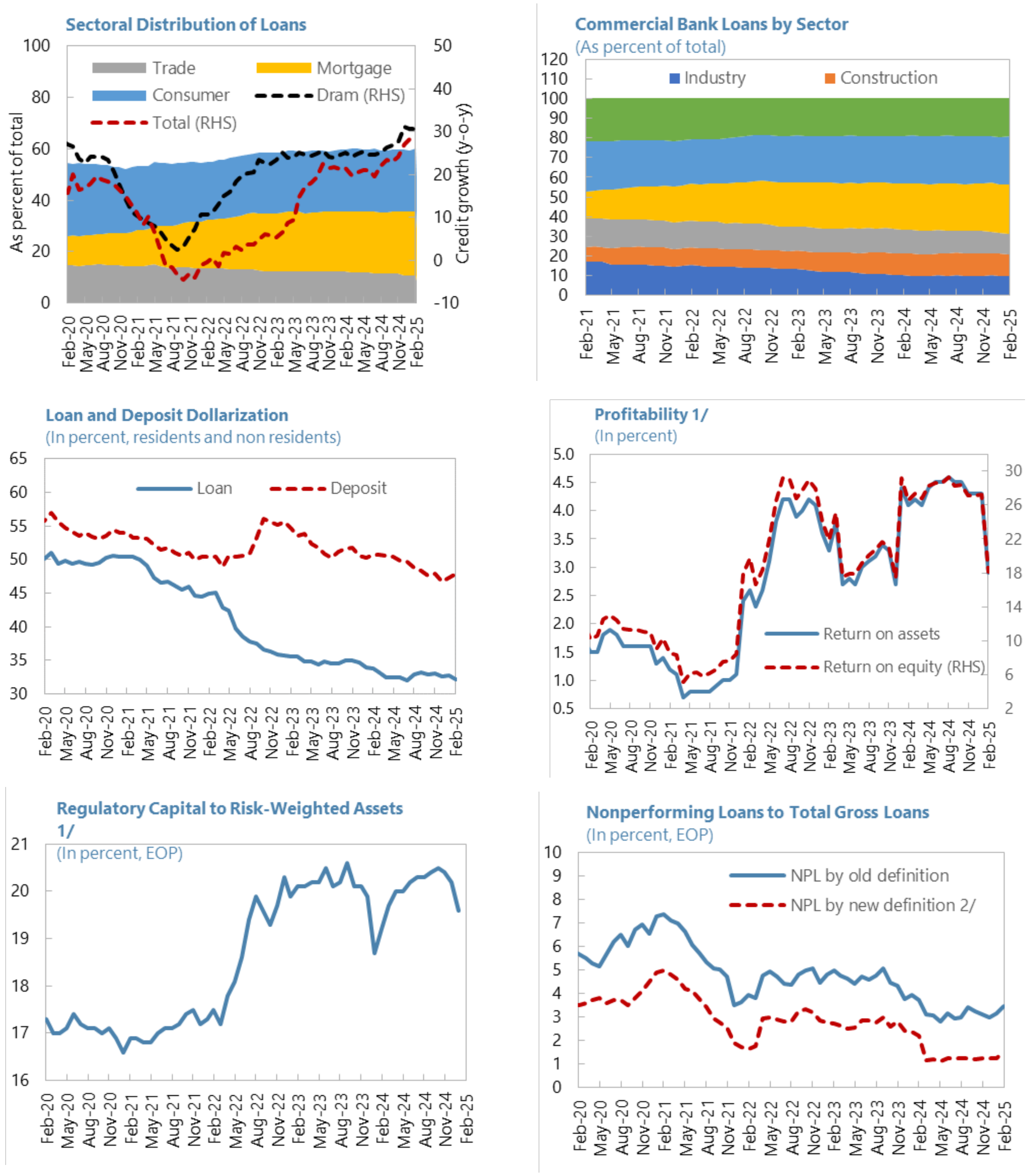
Sources: National authorities and IMF staff calculations.

Figure 4. Armenia: Monetary Developments



Sources: Central Bank of Armenia and IMF staff calculations.

Figure 5. Armenia: Financial Developments



Sources: National authorities, Central Bank of Armenia, Bloomberg, and IMF staff calculations.

1/ The increase in regulatory capital in 2022 is due to the increase in the capital conservation buffer, the capital surcharge for systemically important banks, and higher (retained) profits from payment-and-settlement and foreign currency transactions.

2/ In July 2021, the Central Bank of Armenia aligned the NPL definition with the BCBS regulation identified in the 2019 FSAP recommendations. The new NPL definition only considers exposures which are more than 90 days past due (doubtful and substandard loans).

Table 1. Armenia: Selected Economic and Financial Indicators, 2022–30

	2022	2023	2024	2025	2025	2026	2027	2028	2029	2030
		Act.		4th Review			Proj.			
National income and prices:										
Real GDP (percent change)	12.6	8.3	5.9	4.9	4.5	4.5	4.5	4.5	4.5	4.5
Final consumption expenditure, Contrib. to Growth	3.7	5.3	3.3	3.0	3.8	2.5	2.9	2.9	2.9	2.9
Gross fixed capital formation, Contrib. to Growth	2.7	3.1	2.6	2.1	2.6	2.5	2.1	2.1	2.1	2.1
Changes in inventories, Contrib. to Growth	-0.3	0.0	-0.3	0.0	-1.8	0.0	0.0	0.0	0.0	0.0
Net exports of goods and services, Contrib. to Growth	6.2	-0.1	0.0	-0.1	0.3	-0.5	-0.5	-0.5	-0.5	-0.5
Gross domestic product (in billions of drams)	8,501	9,493	10,193	11,015	10,926	11,760	12,658	13,624	14,665	15,784
Gross domestic product (in millions of U.S. dollars)	19,514	24,186	25,705	26,578	26,437	26,864	28,084	29,724	31,603	33,547
Gross domestic product per capita (in U.S. dollars)	6,661	8,159	8,671	8,965	8,917	9,060	9,471	10,024	10,656	11,311
CPI (period average; percent change)	8.7	2.0	0.3	3.1	3.2	3.0	3.0	3.0	3.0	3.0
CPI (end of period; percent change)	8.3	-0.6	1.5	3.9	3.3	3.0	3.0	3.0	3.0	3.0
GDP deflator (percent change)	8.0	3.1	1.4	3.3	2.6	3.0	3.0	3.0	3.0	3.0
Unemployment rate (in percent)	13.5	12.4	13.9	13.5	13.5	14.0	14.0	14.0	14.0	14.0
Investment and saving (in percent of GDP)										
Investment	22.4	22.9	23.8	19.9	21.2	21.2	21.2	21.1	21.1	21.1
National savings	22.7	20.6	20.0	15.4	16.7	16.4	16.5	16.4	16.3	16.3
Money and credit (end of period)										
Reserve money (percent change)	5.0	-4.0	13.8	9.0	9.8	9.8	9.8	9.8	9.8	9.8
Broad money (percent change)	16.1	17.4	13.7	10.7	12.5	12.5	12.5	12.5	12.5	12.5
Private sector credit growth (percent change)	4.5	18.4	31.7	11.7	13.3	13.3	13.3	13.3	13.3	13.3
Central government operations (in percent of GDP)										
Revenue and grants	24.3	24.9	25.3	25.3	25.1	25.4	25.5	25.5	25.5	25.5
Of which: tax revenue	21.9	22.5	22.4	23.2	23.0	23.3	23.4	23.4	23.4	23.4
Expenditure	26.4	26.9	29.0	30.8	30.6	29.9	29.8	29.3	29.0	28.8
Overall balance on a cash basis	-2.1	-2.0	-3.7	-5.5	-5.5	-4.5	-4.3	-3.8	-3.5	-3.3
Public and publicly-guaranteed (PPG) debt (in percent of GDP)	49.2	50.5	50.0	55.6	54.2	55.9	57.4	57.6	57.4	57.1
Central Government's PPG debt (in percent of GDP)	46.7	48.2	48.0	53.3	52.4	54.3	56.0	56.4	56.4	56.1
Share of foreign currency Central Government PPG debt (in percent)	62.1	52.7	48.2	49.0	47.7	46.9	46.3	46.3	46.5	46.9
External sector										
Exports of goods and services (in millions of U.S. dollars)	10,118	14,338	18,618	12,213	12,167	12,292	12,537	12,863	13,228	13,611
Imports of goods and services (in millions of U.S. dollars)	-10,265	-14,532	-19,087	-13,216	-13,224	-13,387	-13,711	-14,114	-14,529	-14,979
Exports of goods and services (percent change)	100.8	41.7	29.8	-30.0	-34.7	1.0	2.0	2.6	2.8	2.9
Imports of goods and services (percent change)	66.8	41.6	31.3	-26.9	-30.7	1.2	2.4	2.9	2.9	3.1
Current account balance (in percent of GDP)	0.3	-2.3	-3.9	-4.5	-4.5	-4.8	-4.8	-4.8	-4.8	-4.8
FDI (net, in millions of U.S. dollars)	926	527	76	437	397	454	468	483	529	534
Gross international reserves (in millions of U.S. dollars)	4,112	3,610	3,679	3,336	3,427	3,561	3,665	3,768	3,869	3,969
Import cover 1/	3.4	2.3	3.3	2.9	3.1	3.1	3.1	3.1	3.1	3.1
End-of-period exchange rate (dram per U.S. dollar)	394	405	397	…	…	…	…	…	…	…
Average exchange rate (dram per U.S. dollar)	436	392	397	…	…	…	…	…	…	…

Sources: Armenian authorities and Fund staff estimates and projections.

1/ Gross international reserves in months of next year's imports of goods and services, including the SDR holdings.

Table 2. Armenia: Balance of Payments, 2022–30
(In millions of U.S. dollars, unless otherwise indicated)

	2022	2023	2024	2025	2025	2026	2027	2028	2029	2030
	Act.			4th Review	Proj.					
Current account	65	-556	-997	-1,187	-1,187	-1,287	-1,343	-1,418	-1,511	-1,602
Trade balance	-1,866	-2,515	-2,304	-2,734	-2,805	-2,853	-2,901	-2,963	-3,012	-3,079
Exports	5,711	8,648	12,935	6,938	6,723	6,817	6,914	7,015	7,120	7,227
Imports	-7,577	-11,163	-15,240	-9,672	-9,528	-9,671	-9,815	-9,978	-10,131	-10,306
Services (net)	1,719	2,321	1,836	1,730	1,748	1,758	1,726	1,711	1,711	1,711
Credits	4,406	5,690	5,683	5,275	5,444	5,475	5,623	5,847	6,109	6,383
Debits	-2,688	-3,370	-3,847	-3,544	-3,696	-3,717	-3,897	-4,136	-4,397	-4,673
Income (net)	-522	-652	-939	-492	-471	-543	-564	-591	-624	-619
Transfers (net)	734	289	411	308	341	350	396	425	413	386
Private	805	513	413	244	325	334	380	409	397	370
Official	-71	-224	-2	64	16	16	16	16	16	16
Capital and financial account	481	133	800	1,105	1,069	1,482	1,466	1,521	1,612	1,702
Capital transfers (net)	77	60	34	36	70	64	64	48	48	48
Foreign direct investment (net)	926	527	76	437	397	454	468	483	529	534
Portfolio investment (net)	-1,356	65	-119	-80	-90	-80	-80	-80	-80	-80
Public sector borrowing (net)	278	-198	54	611	441	362	468	511	511	517
Disbursements	578	369	538	1,415	1,251	845	845	845	1,345	845
Amortization	-301	-567	-484	-804	-810	-483	-376	-334	-833	-327
Other capital (net)	556	-321	757	101	251	681	545	558	604	682
Errors and omissions	127	-1	439	0	0	0	0	0	0	0
Overall balance	673	-424	241	116	-118	194	123	103	101	100
Financing	-876	424	-241	82	118	-194	-123	-103	-101	-100
Gross international reserves (increase: -)	-966	502	-70	216	252	-134	-104	-103	-101	-100
Use of Fund credit, net	89	-78	-171	-134	-134	-61	-19	0	0	0
Of which: IMF (SBA) budget support	72	0	0	0	0	0	0	0	0	0
SDR allocation	0	0	0	0	0	0	0	0	0	0
Financing needs	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Current account (in percent of GDP)	0.3	-2.3	-3.9	-4.5	-4.5	-4.8	-4.8	-4.8	-4.8	-4.8
Trade balance (in percent of GDP)	-9.6	-10.4	-9.0	-10.3	-10.6	-10.6	-10.3	-10.0	-9.5	-9.2
Gross international reserves (end of period)	4,112	3,610	3,679	3,336	3,427	3,561	3,665	3,768	3,869	3,969
In months of next year's imports	3.4	2.3	3.3	2.9	3.1	3.1	3.1	3.1	3.1	3.1
In percent of IMF's Reserve Adequacy Metric (ARA)	153	116	108	104	109	110	110	109	103	105
Goods export growth, percent change	74.3	51.4	49.6	-42.3	-48.0	1.4	1.4	1.5	1.5	1.5
Goods import growth, percent change	58.5	47.3	36.5	-32.7	-37.5	1.5	1.5	1.7	1.5	1.7
Nominal external debt	15,260	15,468	16,188	17,807	16,803	17,458	18,150	18,877	19,125	19,895
o.w. public external debt	6,612	6,704	6,704	7,517	6,910	7,050	7,300	7,566	7,333	7,602
Nominal external debt stock (in percent of GDP)	78.2	64.0	63.0	67.0	63.6	65.0	64.6	63.5	60.5	59.3
External public debt-to-exports ratio (in percent)	65.4	46.8	36.0	61.5	56.8	57.4	58.2	58.8	55.4	55.9
External public debt service (in percent of exports)	15.5	15.4	11.5	8.7	21.7	19.2	18.8	18.8	22.9	18.9

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

Table 3a. Armenia: Central Government Operations, 2022–30
(In billions of Armenian drams)

	2022	2023	2024	2025	2025	2026	2027	2028	2029	2030
				4th						
		Act.		Review			Proj.			
Total revenue and grants	2,063.1	2,359.4	2,579.0	2,781.9	2,746.4	2,991.2	3,227.9	3,472.8	3,740.9	4,027.5
Total revenue	2,048.1	2,345.5	2,552.4	2,766.9	2,725.8	2,969.4	3,205.3	3,457.1	3,725.0	4,011.4
Tax revenues 1/	1,861.5	2,131.6	2,287.5	2,557.6	2,514.7	2,740.2	2,957.4	3,189.2	3,436.7	3,701.1
VAT	679.6	767.2	755.9	817.3	820.2	885.2	952.8	1,025.5	1,103.8	1,188.1
Profits, simplified and presumptive	222.8	321.6	335.8	374.5	359.8	387.3	416.9	448.7	483.0	519.8
Personal income tax	474.8	554.5	650.1	727.0	708.8	772.9	839.9	910.0	983.5	1,060.6
Customs duties	56.7	75.3	76.2	88.1	87.4	94.1	101.3	109.0	117.3	126.3
Other	427.6	413.1	469.6	550.7	538.4	600.7	646.5	695.9	749.0	806.2
Social contributions	64.5	90.3	103.4	110.1	112.8	123.3	134.0	145.3	156.4	168.3
Other revenue	122.2	123.6	161.5	99.1	98.3	105.8	113.9	122.6	132.0	142.1
Grants	15.0	13.9	26.7	15.0	20.7	21.9	22.5	15.7	15.9	16.1
Total expenditure	2,242.6	2,551.0	2,958.7	3,387.4	3,347.4	3,520.5	3,767.0	3,990.6	4,254.3	4,548.5
Expenses	1,862.2	2,077.8	2,416.5	2,654.2	2,621.6	2,765.0	2,954.1	3,117.3	3,321.0	3,545.3
Wages	419.6	443.2	467.2	509.9	497.1	535.1	575.9	619.9	667.2	718.2
Payments to individual pension accts.	54.3	53.3	69.1	83.5	81.9	82.3	86.1	95.4	102.7	110.5
Subsidies	19.8	54.1	62.2	22.0	65.6	67.9	75.9	81.7	88.0	88.4
Interest	198.3	253.4	313.6	386.8	381.8	408.1	443.2	486.4	524.5	558.9
Social allowances and pensions	559.3	657.9	881.9	1,001.2	945.1	987.8	1,043.0	1,103.6	1,167.3	1,247.0
Pensions/social security benefits	356.6	386.7	450.1	476.1	475.3	511.6	538.0	579.0	615.9	662.9
Social assistance benefits	202.7	271.2	431.9	525.1	469.8	476.3	505.0	524.5	551.4	584.0
Goods and services	136.0	124.7	135.3	96.9	136.6	137.7	145.6	143.1	155.4	167.3
Grants	237.6	251.8	274.4	334.8	295.0	311.6	329.1	335.2	359.3	386.7
Other expenditure	237.4	239.4	212.7	219.1	218.5	234.3	255.3	252.1	256.6	268.3
Transactions in nonfinancial assets	380.4	473.2	542.2	733.2	725.8	755.5	812.8	873.3	933.3	1,003.2
Acquisition of nonfinancial assets	389.3	495.0	558.3	748.2	740.8	770.5	827.8	888.3	948.3	1,018.2
Disposals of nonfinancial assets	8.9	21.8	16.1	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Overall balance (above-the-line)	-179.5	-191.6	-379.7	-605.5	-600.9	-529.2	-539.1	-517.8	-513.4	-521.0
Statistical discrepancy	16.0	4.1	19.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (below-the-line)	-163.5	-187.6	-360.3	-605.5	-600.9	-529.2	-539.1	-517.8	-513.4	-521.0
Financing	163.5	187.6	360.3	605.5	600.9	529.2	539.1	517.8	513.4	521.0
Domestic financing	272.1	411.5	336.7	368.0	428.4	363.1	318.4	280.4	270.8	273.7
Banking system	85.2	236.5	183.1	198.7	276.9	228.0	237.2	193.4	174.7	170.0
CBA	21.3	63.3	-36.6	-6.6	4.4	-11.2	-12.0	0.0	0.0	0.0
Commercial Banks	64.0	173.3	219.7	205.3	272.5	239.2	249.2	193.4	174.7	170.0
Nonbanks	186.9	175.0	153.6	169.3	151.4	135.1	81.2	87.0	96.0	103.7
T-Bills/other	169.4	171.6	148.0	203.2	183.6	161.1	167.9	130.3	117.7	114.5
Promissory note/other	-11.9	-18.2	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	29.4	21.6	6.3	-33.9	-32.2	-26.0	-86.7	-43.3	-21.7	-10.8
External financing	-108.6	-223.9	23.6	237.5	172.6	166.1	220.7	237.4	242.6	247.3
Gross disbursement	166.6	124.6	196.9	557.2	491.4	369.7	380.7	387.1	623.9	397.4
of which : IMF budget support	31.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-99.6	-197.9	-166.0	-319.7	-318.8	-203.6	-159.9	-149.7	-381.3	-150.1
Net lending	-175.6	-150.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing	0.0	0.0	-7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (in billion of drams)	8,501.4	9,492.5	10,193.4	11,014.9	10,925.9	11,760.1	12,658.0	13,624.4	14,664.6	15,784.3
Program balance 2/	-320.7	-537.1	-359.6	-613.4	-618.8	-540.2	-610.8	-561.2	-535.0	-531.8
Primary balance 3/	-127.4	-67.3	-59.4	-252.7	-251.3	-147.1	-182.6	-74.8	-10.6	27.1

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. As of January 2024, the mortgage interest tax credit is recorded as a social benefit, resulting in an increase in both spending and revenues (personal income tax) of AMD 72 billion in 2024.

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

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

Table 3b. Armenia: Central Government Operations, 2022–30
(In percent of GDP, unless otherwise specified)

	2022	2023	2024	2025	2025	2026	2027	2028	2029	2030
		Act.		4th Review			Proj.			
Total revenue and grants	24.3	24.9	25.3	25.3	25.1	25.4	25.5	25.5	25.5	25.5
Total revenue	24.1	24.7	25.0	25.1	24.9	25.2	25.3	25.4	25.4	25.4
Tax revenues 1/	21.9	22.5	22.4	23.2	23.0	23.3	23.4	23.4	23.4	23.4
VAT	8.0	8.1	7.4	7.4	7.5	7.5	7.5	7.5	7.5	7.5
Profits, simplified and presumptive	2.6	3.4	3.3	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Personal income tax	5.6	5.8	6.4	6.6	6.5	6.6	6.6	6.7	6.7	6.7
Customs duties	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other	5.0	4.4	4.6	5.0	4.9	5.1	5.1	5.1	5.1	5.1
Social contributions	0.8	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1
Other revenue	1.4	1.3	1.6	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Grants	0.2	0.1	0.3	0.1	0.2	0.2	0.2	0.1	0.1	0.1
Total expenditure	26.4	26.9	29.0	30.8	30.6	29.9	29.8	29.3	29.0	28.8
Expense	21.9	21.9	23.7	24.1	24.0	23.5	23.3	22.9	22.6	22.5
Wages	4.9	4.7	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Payments to individual pension accts.	0.6	0.6	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Subsidies	0.2	0.6	0.6	0.2	0.6	0.6	0.6	0.6	0.6	0.6
Interest	2.3	2.7	3.1	3.5	3.5	3.5	3.5	3.6	3.6	3.5
Social allowances and pensions	6.6	6.9	8.7	9.1	8.7	8.4	8.2	8.1	8.0	7.9
Pensions/social security benefits	4.2	4.1	4.4	4.3	4.4	4.4	4.3	4.3	4.2	4.2
Social assistance benefits	2.4	2.9	4.2	4.8	4.3	4.1	4.0	3.9	3.8	3.7
Goods and services	1.6	1.3	1.3	0.9	1.3	1.2	1.2	1.1	1.1	1.1
Grants	2.8	2.7	2.7	3.0	2.7	2.7	2.6	2.5	2.5	2.5
Other expenditure	2.8	2.5	2.1	2.0	2.0	2.0	2.0	1.9	1.8	1.7
Transactions in nonfinancial assets	4.5	5.0	5.3	6.7	6.6	6.4	6.4	6.4	6.4	6.4
Acquisition of nonfinancial assets	4.6	5.2	5.5	6.8	6.8	6.6	6.5	6.5	6.5	6.5
Disposals of nonfinancial assets	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overall balance (above-the-line)	-2.1	-2.0	-3.7	-5.5	-5.5	-4.5	-4.3	-3.8	-3.5	-3.3
Statistical discrepancy	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (below-the-line)	-1.9	-2.0	-3.5	-5.5	-5.5	-4.5	-4.3	-3.8	-3.5	-3.3
Financing	1.9	2.0	3.5	5.5	5.5	4.5	4.3	3.8	3.5	3.3
Domestic financing	3.2	4.3	3.3	3.3	3.9	3.1	2.5	2.1	1.8	1.7
Banking system	1.0	2.5	1.8	1.8	2.5	1.9	1.9	1.4	1.2	1.1
CBA	0.3	0.7	-0.4	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0
Commercial Banks	0.8	1.8	2.2	1.9	2.5	2.0	2.0	1.4	1.2	1.1
Nonbanks	2.2	1.8	1.5	1.5	1.4	1.1	0.6	0.6	0.7	0.7
T-Bills/other	2.0	1.8	1.5	1.8	1.7	1.4	1.3	1.0	0.8	0.7
Promissory note/other	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.3	0.2	0.1	-0.3	-0.3	-0.2	-0.7	-0.3	-0.1	-0.1
External financing	-1.3	-2.4	0.2	2.2	1.6	1.4	1.7	1.7	1.7	1.6
Gross disbursement	2.0	1.3	1.9	5.1	4.5	3.1	3.0	2.8	4.3	2.5
Amortization due	-1.2	-2.1	-1.6	-2.9	-2.9	-1.7	-1.3	-1.1	-2.6	-1.0
Net lending	-2.1	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (in billion of drams)	8,501	9,493	10,193	11,015	10,926	11,760	12,658	13,624	14,665	15,784
Program balance 2/	-3.8	-5.7	-3.5	-5.6	-5.7	-4.6	-4.8	-4.1	-3.6	-3.4
Primary balance 3/	-1.5	-0.7	-0.6	-2.3	-2.3	-1.3	-1.4	-0.5	-0.1	0.2

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. As of January 2024, the mortgage interest tax credit is recorded as a social benefit, resulting in an increase in both spending and revenues (personal income tax) of AMD 72 billion

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

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

Table 4. Armenia: Monetary Accounts, 2022–25
(In billions of drams, unless otherwise specified)

	2022	2023	2024				2025			
			Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
							Prelim.		Proj.	
Central Bank of Armenia										
Net foreign assets	1287.5	1117.7	971.3	988.5	1066.4	1146.1	1218.3	1208.2	1259.7	1290.6
Net international reserves 1/	685.7	795.8	686.9	715.8	821.4	857.8	935.6	913.6	953.2	972.1
Other	601.8	321.9	284.3	272.7	245.0	288.4	282.7	294.6	306.6	318.5
Net domestic assets	634.5	727.9	765.8	858.4	847.3	952.4	801.6	815.9	830.1	1,015.1
Claims on general government (net)	-372.6	-382.8	-489.0	-486.5	-502.7	-439.8	-429.6	-419.3	-409.1	-398.8
Of which : central government (net)	-308.2	-322.4	-410.3	-400.0	-409.9	-347.1	-336.8	-326.6	-316.3	-306.1
central government deposits	381.5	392.1	498.6	496.2	512.3	429.0	346.4	336.2	325.9	315.7
Claims on banks	528.3	658.1	795.0	885.0	914.2	939.2	1,077.8	1,077.8	1,077.8	1,077.8
Other items (net)	478.9	452.6	459.9	459.9	435.9	453.0	153.3	157.4	161.4	336.1
Reserve money	1,922.1	1,845.6	1,737.1	1,846.9	1,913.9	2,099.9	2,020.0	2,024.1	2,089.9	2,305.7
Currency issue	803.1	911.5	850.9	885.3	929.5	986.4	939.6	914.5	948.4	1,061.6
Banks' reserves	1,088.5	886.2	867.7	943.1	966.1	1,086.1	1,067.8	1,097.2	1,129.0	1,231.7
In drams	360.7	392.2	403.1	488.1	508.0	567.5	538.5	555.9	575.8	666.5
In foreign currency	727.8	494.0	464.5	454.9	458.1	518.7	529.3	541.3	553.2	565.2
Other accounts	30.5	48.0	18.5	18.6	18.1	26.0	12.4	12.4	12.4	12.4
Banking system										
Net foreign assets	334.3	343.8	239.0	289.6	227.9	152.8	252.7	230.7	270.3	289.2
Net domestic assets	4,080.6	4,839.2	4,827.5	4,968.1	5,241.9	5,738.1	5,613.2	5,478.1	5,650.5	6,338.1
Claims on government (net)	937.4	1,100.5	1,079.3	1,041.2	1,101.6	1,263.1	1,286.6	1,310.0	1,333.5	1,357.0
Of which : claims on central government (net)	1,001.8	1,160.8	1,158.0	1,127.7	1,194.4	1,355.9	1,379.3	1,402.8	1,426.3	1,449.7
Claims on rest of the economy	4,397.6	5,208.0	5,334.1	5,585.1	6,010.8	6,856.5	6,668.4	6,657.5	6,954.4	7,768.4
Other items (net)	-1,254.4	-1,469.3	-1,585.9	-1,658.2	-1,870.4	-2,381.5	-2,341.8	-2,489.4	-2,637.4	-2,787.3
Broad money	4,415.0	5,183.0	5,066.4	5,257.6	5,469.9	5,890.9	5,865.9	5,708.9	5,920.8	6,627.3
Currency in circulation	675.7	778.1	731.7	767.7	802.1	838.6	813.4	791.6	821.0	919.0
Deposits	3,739.3	4,404.8	4,334.7	4,489.9	4,667.8	5,052.3	5,052.5	4,917.2	5,099.8	5,708.3
Domestic currency	2,118.0	2,632.0	2,618.3	2,718.6	2,883.7	3,220.1	3,199.9	3,079.6	3,280.5	3,907.3
Foreign currency	1,621.2	1,772.8	1,716.4	1,771.3	1,784.0	1,832.3	1,852.6	1,837.6	1,819.3	1,801.0
Memorandum items:										
Exchange rate (drams per U.S. dollar, end of period)	393.6	404.8	393.3	388.2	387.3	396.6	404.9	...	...	...
12-month change in reserve money (in percent)	5.0	-4.0	-0.5	7.5	10.1	13.8	16.3	9.6	9.2	9.8
12-month change in broad money (in percent)	16.1	17.4	12.6	13.5	12.3	13.7	15.8	8.6	8.2	12.5
12-month change in dram broad money (in percent)	13.4	22.1	18.8	15.8	16.8	19.0	19.8	11.0	11.3	18.9
12-month change in private sector credit (in percent)	4.5	18.4	17.0	17.8	20.9	31.7	25.0	19.2	15.7	13.3
Velocity of broad money (end of period)	1.9	1.8	1.9	1.9	1.8	1.7	1.8	1.8	1.8	1.6
Money multiplier	2.3	2.8	2.9	2.8	2.9	2.8	2.9	2.8	2.8	2.9
Private sector credit (in percent of GDP)	51.7	54.9	52.3	54.8	59.0	67.3	65.4	65.3	68.2	76.2
Dollarization in bank deposits 2/	43.4	40.2	39.6	39.5	38.2	36.3	36.7	37.4	35.7	31.6
Dollarization in broad money 3/	36.7	34.2	33.9	33.7	32.6	31.1	31.6	32.2	30.7	27.2
Currency in circulation in percent of deposits	18.1	17.7	16.9	17.1	17.2	16.6	16.1	16.1	16.1	16.1
NIR (U.S. dollars, actual exchange rate)	1,742.3	1,966.0	1,746.7	1,834.5	2,120.9	2,163.0	2,389.4	2,107.2	1,794.0	1,767.3

Sources: Central Bank of Armenia; and Fund staff estimates and projections.

1/ In line with the TMU definition.
2/ Ratio of foreign currency deposits to total deposits (in percent).
3/ Ratio of foreign currency deposits to broad money (in percent).

Table 5. Armenia: Financial Soundness Indicators for the Banking Sector, 2022–25
(In percent, unless otherwise indicated)

	2022				2023				2024				2025
	Mar	June	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Feb
Capital adequacy													
Total regulatory capital to risk-weighted assets	17.2	18.6	19.6	20.3	20.1	20.6	20.6	19.9	19.7	20.2	20.4	20.2	20.0
Tier I regulatory capital to risk-weighted assets													
Capital (net worth) to assets	14.8	15.2	14.9	14.9	15.4	15.4	15.6	14.8	15.5	15.8	16.0	15.4	16.3
Asset composition													
Sectoral distribution of loans (in billions of drams)													
Industry (excluding energy sector)	415.7	375.7	371.1	372.2	367.0	339.2	327.4	328.9	309.4	330.5	369.4	436.1	423.0
Energy sector	132.8	122.1	122.7	127.5	135.4	135.5	140.6	156.7	146.1	154.0	144.6	143.6	133.5
Agriculture	230.4	227.5	221.3	238.2	247.6	259.2	273.5	285.6	301.7	327.6	331.9	345.5	345.6
Construction	333.7	328.4	340.2	349.6	370.3	400.4	444.0	499.0	528.4	551.8	609.0	660.7	665.4
Transport and communication	116.7	101.4	87.3	88.6	92.8	105.1	104.5	107.1	104.7	111.4	122.2	137.1	133.9
Trade/commerce	504.9	472.1	477.5	469.7	486.9	501.1	529.6	573.6	559.7	585.6	607.6	631.3	633.7
Consumer credits	834.4	824.6	837.6	895.5	928.6	962.6	1040.1	1085.6	1162.7	1245.8	1286.7	1399.6	1449.0
Mortgage loans	698.0	721.9	780.4	849.4	897.7	959.0	997.2	1069.4	1109.3	1175.4	1271.4	1471.3	1486.2
Sectoral distribution of loans to total loans (percent of total)													
Industry (excluding energy sector)	10.6	9.9	9.4	8.9	8.6	7.6	6.9	6.5	6.1	6.2	6.4	6.9	6.6
Energy sector	3.4	3.2	3.1	3.1	3.2	3.0	3.0	3.1	2.9	2.9	2.5	2.3	2.1
Agriculture	5.9	6.0	5.6	5.7	5.8	5.8	5.8	5.7	5.9	6.1	5.7	5.4	5.4
Construction	8.5	8.6	8.6	8.4	8.7	9.0	9.4	9.9	10.4	10.3	10.5	10.4	10.3
Transport and communication	3.0	2.7	2.2	2.1	2.2	2.4	2.2	2.1	2.1	2.1	2.1	2.2	2.1
Trade/commerce	12.9	12.4	12.1	11.3	11.4	11.2	11.2	11.4	11.0	10.9	10.5	9.9	9.8
Mortgage loans	17.8	18.9	19.8	20.4	21.0	21.5	21.1	21.3	21.7	21.9	21.9	23.2	23.0
Consumer credits	21.3	21.6	21.3	21.5	21.8	21.6	22.0	21.6	22.8	23.2	22.2	22.0	22.5
Other sectors	16.8												
Foreign exchange loans to total loans	46.0	40.5	38.1	36.6	36.3	35.1	32.8	33.0	31.5	31.2	31.6	30.9	30.7
Asset quality													
Nonperforming loans (in billions of drams)	72.6	113.9	129.0	117.4	114.3	128.5	143.0	126.2	61.1	67.9	73.3	79.8	100.4
Watch (up to 90 days past due)	82.5	72.7	63.0	67.0	91.7	84.9	101.1	70.7	100.1	105.5	126.9	111.4	126.6
Substandard (91-180 days past due)	39.9	37.3	41.3	36.7	38.6	51.1	59.8	87.0	32.0	43.0	44.0	51.7	64.4
Doubtful (181-270 days past due)	32.8	76.5	87.8	80.7	75.7	77.4	83.3	39.2	29.1	24.9	29.3	28.1	36.0
Loss (>270 days past due, in billions of drams)	455.2	434.9	460.0	489.7	487.3	480.7	481.8	480.7	517.3	506.7	513.2	524.6	544.3
Nonperforming loans to gross loans	1.8	2.9	3.2	2.8	2.7	2.9	3.0	2.4	1.2	1.2	1.2	1.2	1.5
Provisions to nonperforming loans	91.2	76.5	74.5	80.3	82.6	87.6	90.6	103.8	145.5	129.1	131.7	127.9	112.2
Spread between highest and lowest rates of interbank borrowing in AMD	6.5	1.2	1.5	1.0	0.4	0.3	0.6	0.7	0.5	0.4	1.0	0.4	0.7
Spread between highest and lowest rates of interbank borrowing in FX	1.8	1.3	0.5	2.5	1.3	1.0	0.3	0.9	1.0	1.0	1.8	0.0	1.8
Earnings and profitability													
ROA (profits to period average assets)	2.3	3.7	3.9	4.1	3.8	2.7	3.2	2.7	4.2	4.5	4.5	4.3	2.9
ROE (profits to period average equity)	16.7	26.3	26.8	27.9	25.1	17.9	20.8	17.4	27.3	28.6	28.3	27.1	18.1
Interest margin to gross income	26.2	24.2	24.0	25.0	35.1	36.2	36.5	36.0	38.9	38.7	38.7	38.6	39.4
Interest income to gross income	65.0	58.2	55.9	55.4	68.7	69.2	69.0	68.8	71.8	70.5	70.2	69.6	70.5
Noninterest expenses to gross income	26.9	25.3	23.9	26.1	30.0	29.9	29.1	36.8	27.9	28.9	28.5	30.6	27.7
Liquidity													
Liquid assets to total assets	31.1	32.6	34.8	37.0	38.2	35.5	35.7	33.2	34.7	33.4	32.2	30.8	30.0
Liquid assets to total short-term liabilities	117.5	111.8	108.9	102.4	104.6	98.6	102.9	92.2	99.2	92.0	91.9	88.7	92.4
Customer deposits to total (non-interbank) loans	114.3	118.2	125.8	135.9	130.4	125.1	122.7	120.9	120.1	116.0	110.3	111.0	1.7
Foreign exchange liabilities to total liabilities	47.7	46.8	48.7	50.3	48.5	47.5	47.1	46.1	45.5	44.3	43.0	42.2	43.3
Sensitivity to market risk													
Gross open positions in foreign exchange to capital	12.4	9.3	6.8	3.3	2.0	2.5	2.3	3.6	2.7	2.6	2.3	3.3	3.0
Net open position in FX to capital	11.1	7.2	5.0	1.9	0.4	0.7	0.9	0.5	1.7	0.4	0.6	-1.0	1.2

Source: Central Bank of Armenia.

Note: In July 2021, the CBA aligned the NPL definition with the BCBS regulation. New NPL definition only takes into account exposures that are more than 90 days past due (doubtful and substandard loans).

Table 6. Armenia: Schedule of Reviews and Available Purchases Under the Stand-By Arrangement

Date of Availability	Conditions	Amount (millions of SDRs)	Percent of Quota	Percent of Quota (cumulative)
December 12, 2022	Board approval of the arrangement	18.400	14.29	14.29
June 9, 2023	Observance of end-December 2022 performance criteria and continuous performance criteria, and completion of first review	18.400	14.29	28.57
December 11, 2023	Observance of end-June 2023 performance criteria and continuous performance criteria, and completion of second review	18.400	14.29	42.86
June 10, 2024	Observance of end-December 2023 performance criteria and continuous performance criteria, and completion of third review	18.400	14.29	57.14
December 11, 2024	Observance of end-June 2024 performance criteria and continuous performance criteria, and completion of fourth review	18.400	14.29	71.43
June 9, 2025	Observance of end-December 2024 performance criteria and continuous performance criteria, and completion of fifth review	18.400	14.29	85.71
November 21, 2025	Observance of end-June 2025 performance criteria and continuous performance criteria, and completion of sixth review	18.400	14.29	100.00
	Total	128.8	100.00	100.00

Sources: Fund staff estimates and projections.

Table 7. Armenia: Indicators of Capacity to Repay the Fund, 2025–30

	2025	2026	2027	2028	2029	2030
			Projections			
Fund obligations based on existing credit						
(in millions of SDRs)						
Principal	99.8	45.1	14.2	0.0	0.0	0.0
Charges and interest	10.3	6.9	5.4	5.1	5.1	5.1
Fund obligations based on existing and prospective credit 1/						
In millions of SDRs	112.4	56.5	24.2	37.3	72.5	42.7
In millions of US$	150.7	76.1	32.5	50.2	97.5	57.4
In percent of Gross International Reserves	7.0	3.4	1.2	1.8	3.4	1.9
In percent of exports of goods and services	1.5	0.6	0.3	0.4	0.8	0.4
In percent of external public debt service	13.2	9.7	4.6	6.9	7.5	7.8
In percent of GDP	0.6	0.3	0.1	0.2	0.3	0.2
In percent of quota	87.3	43.9	18.8	29.0	56.3	33.1
Outstanding Fund credit based on existing drawings						
In millions of SDRs	59.3	14.2	0.0	0.0	0.0	0.0
In billions of US$	0.1	0.0	0.0	0.0	0.0	0.0
In percent of Gross International Reserves	2.7	0.7	0.0	0.0	0.0	0.0
In percent of exports of goods and services	0.7	0.2	0.0	0.0	0.0	0.0
In percent of external public debt service	6.9	2.4	0.0	0.0	0.0	0.0
In percent of GDP	0.4	0.1	0.0	0.0	0.0	0.0
In percent of quota	46.0	11.0	0.0	0.0	0.0	0.0
Outstanding Fund credit based on existing and prospective drawings 1/						
In millions of SDRs	188.1	143.0	128.8	101.2	36.8	0.0
In billions of US$	0.3	0.2	0.2	0.1	0.0	0.0
In percent of Gross International Reserves	11.7	8.6	6.7	4.9	1.7	0.0
In percent of exports of goods and services	2.5	1.6	1.4	1.1	0.4	0.0
In percent of external public debt service	22.0	24.6	24.7	18.7	3.8	0.0
In percent of GDP	1.0	0.7	0.6	0.5	0.2	0.0
In percent of quota	146.0	111.0	100.0	78.6	28.6	0.0
Net use of Fund credit (millions of SDRs) existing and prospective 1/	16.4	-56.5	-24.2	-37.3	-72.5	-42.7
Disbursements	128.8	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	112.4	56.5	24.2	37.3	72.5	42.7
Memorandum items (adverse scenario)						
Nominal GDP (in millions of US$)	25,940	26,219	27,410	29,863	30,532	32,411
Exports of goods and services (in millions of US$)	10,189	11,722	12,336	12,342	12,619	13,395
Gross international reserves (in millions of US$)	2163	2238	2604	2798	2,861	3,037

Sources: IMF staff estimates and projections.

1/ Assumes access of 128.8 million SDR in 2025. The ratios in the corresponding lines use GDP, reserves, exports, and debt service in the adverse scenario case.

Table 8. Armenia: External Financing Requirements and Sources, 2023–27
(In millions of U.S. dollars, unless otherwise indicated)

	2023	2024	2025	2026	2027
Gross Financing Needs	**1,572**	**2,617**	**2,828**	**2,970**	**2,899**
Current Account Deficit excluding budget support grants	566	1,032	1,203	1,303	1,359
Change in NFA	-502	70	-252	134	104
External debt amortization (excluding IMF)	1431	1344	1743	1472	1417
o/w government amortization	567	484	810	483	376
o/w other	865	860	933	989	1041
Repayment to the Fund (amortization)	78	171	134	61	19
Financing Sources	**1,572**	**2,617**	**2,828**	**2,970**	**2,899**
FDI	527	76	397	454	468
Loan disbursements (public sector)	366	471	1251	845	845
- Program	158	287	1,031	400	400
- Project	208	184	220	445	445
External Grants	31	51	50	50	50
- Program	9	35	16	16	16
- Project	22	16	34	34	34
Other Capital Flows	649	1582	1130	1621	1536
Errors and Omissions	-1	439	0	0	0
Financing Gap	0	0	0	0	0

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

Table 9. Armenia: Decomposition of Public Debt and Debt Service by Creditor, 2024–26

	Debt Stock (end of period, residency principle)			Debt Stock (end of period, instrument principle)			Debt Service 7/					
	2024 1/			2024			2024	2025	2026	2024	2025	2026
	(In mln. US$)	*(Percent total debt)*	*(Percent GDP)*	*(In mln.US$)*	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	12338.23	100	48.0	12338.23	100	48.0	include external guarantees					
External (including guarantees)	5950.14	48.2	23.1	6075.44	49.2	23.6	659.65	967.90	636.15	2.6	3.7	2.4
Multilateral creditors /2	3607.06	29.2	14.0	3607.06	29.2	14.0	471.68	472.46	479.25	1.8	1.8	1.8
IMF	150.98	1.2	0.6	150.98	1.2	0.6						
World Bank	1690.40	13.7	6.6	1690.40	13.7	6.6						
ADB/AfDB/IADB	957.30	7.8	3.7	957.30	7.8	3.7						
Other Multilaterals	808.38	6.6	3.1	808.38	6.6	3.1						
o/w: list largest two creditors												
EDB	380.10	3.1	1.5	380.10	3.1	1.5						
EIB	138.00	1.1	0.5	138.00	1.1	0.5						
list of additional large creditors												
OFID	134.87	1.1	0.5	134.87	1.1	0.5						
Bilateral Creditors	889.36	7.2	3.5	889.36	7.2	3.5	116.58	122.21	108.77	0.5	0.5	0.4
Paris Club	872.91	7.1	3.4	872.91	7.1	3.4	114.10	119.80	106.44	0.4	0.5	0.4
o/w: list largest two creditors												
RF	239.33	1.9	0.9	239.33	1.9	0.9						
France	302.40	2.5	1.2	302.40	2.5	1.2						
list of additional large creditors												
Germany-KfW	202.16	1.6	0.8	202.16	1.6	0.8						
Japan	120.45	1.0	0.5	120.45	1.0	0.5						
Non-Paris Club	16.45	0.1	0.1	16.45	0.1	0.1	2.48	2.41	2.32	0.0	0.0	0.0
o/w: list largest two creditors												
Export-Import Bank of China	14.91	0.1	0.1	14.91	0.1	0.1						
Abu-Dhabi Fund for Development	1.54	0.0	0.0	1.54	0.0	0.0						
list of additional large creditors	-											
Bonds /3	1437.87	11.7	5.6	1563.17	12.7	6.1	69.1	371.1	46.8	0.3	1.4	0.2
Commercial creditors	15.84	0.1	0.1	15.84	0.1	0.1	2.2	2.1	1.4	0.0	0.0	0.0
o/w: list largest two creditors		0.0	0.0		0.0	0.0						
Erste Bank/Austria	12.26	0.1	0.0	12.26	0.1	0.0						
Raiffeisen Bank/Austria	3.08	0.0	0.0	3.08	0.0	0.0						
list of additional large creditors												
Other international creditors	-			-								
o/w: list largest two creditors												
list of additional large creditors												
Domestic (including guarantees) /4	6388.1	51.8	24.9	6262.8	50.8	24.4	1273.61	1409.84	1105.19	5.0	5.4	4.1
Held by residents, total	6388.1	51.8	24.9	5807.4	47.1	22.6						
Held by non-residents, total				431.3	3.5	1.7						
T-Bills	341.1	2.8	1.3	341.1	2.8	1.3	128.45	341.07	0.00	0.5	1.3	0.0
Bonds	5897.7	47.8	22.9	5897.7	47.8	22.9	376.61	1068.78	1105.19	1.5	4.1	4.1
Loans												
Domestic guarantees	24.1	0.2	0.1	24.1	0.2	0.1	9.5	10.8	10.7	0.0	0.0	0.0
Memo items:												
Collateralized debt /5	0	0	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
o/w: Related												
o/w: Unrelated												
Contingent liabilities												
o/w: Public guarantees	30.52	0.0	0.1	30.52	0.2	0.1	16.27	11.48	11.41	0.0	0.0	0.0
o/w: Other explicit contingent liabilities /6												

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is central government.

2/ Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/ Based on residency principle all Treasury Bonds and Eurobonds acquired by non-residents are included in the line "Bonds" as part of external debt.

4/ Based on residency principle all Treasury Bonds and Eurobonds acquired by residents are included in the line "Domestic" as part of domestic debt.

5/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

6/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

7/ Debt service profile is represented based on debt instrument principle, because data by residency principle is not available.

Annex I. Risk Assessment Matrix[1]

Risk	Description	Likelihood	Possible Impact	Policy Advice
Global Risks				
Trade policy and investment shocks.	Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	High	Lower growth of trading partners, trade, FDI and remittances inflows would lower Armenia's exports and growth. Tighter global financial conditions and US Dollar appreciation would increase borrowing costs at a time when the deficit and debt are rising.	Strengthen and diversify trade channels/markets. Allow the exchange rate to operate as a shock absorber, intervene in the event of disorderly market conditions. Pursue fiscal consolidation, reduce debt, diversify borrowing sources. Monitor risks in the financial sector, conduct stress tests and strengthen financial supervision.
Deepening geoeconomic fragmentation.	Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	High	Global geoeconomic and geopolitical tensions could have adverse political and economic implications, including higher uncertainty and lower trade, investment, and growth in Armenia.	Build fiscal and external buffers. Allow the exchange rate to operate as a shock absorber. Strengthen social safety nets. Undertake structural reforms to build resilience of the domestic economy and to diversify Armenia's trade basket and trading partners.
Tighter financial conditions and systemic instability.	Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	Medium	Capital and labor outflows could lower growth, put pressure on the exchange rate, increase fiscal and external pressures, and worsen the debt profile.	Allow the exchange rate to operate as a shock absorber, intervene in the foreign exchange market to address disorderly market conditions. Pursue fiscal consolidation, reduce debt, diversify borrowing sources, and build fiscal buffers. Monitor risks emerging in the financial sector, conduct stress tests and strengthen financial supervision, oversight and regulation.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Risk	Description	Likelihood	Possible Impact	Policy Advice
Commodity price volatility.	Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	Medium	Rising food and energy prices could build further inflationary pressures, lead to food and energy insecurity, hamper economic activity, and cause social discontent.	Maintain adequate monetary policy stance to curtail inflationary pressures. Build fiscal and external buffers, reprioritize spending and provide necessary, targeted support to the most vulnerable.
Global growth acceleration.	Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	Low	Global growth acceleration would support growth in trading partners and in Armenia.	Keep the structural reform momentum, including the implementation of export and employment strategies to reap the benefits of improvements in global conditions.
Cyberthreats.	Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies trigger financial and economic instability.	Medium	Highly uncertain systemic risks and potential costs due to insufficient information.	Strengthening international and regional cooperation and developing government and business contingency and continuation plans.
		Domestic Risks		
Regional tensions and geopolitical shifts.	Risks from tensions at the border with Azerbaijan and possibly renewed military conflict; developments related to the war in Ukraine, including a peace agreement and some removal of sanctions on Russia; and deteriorating relations with Russia may slow down growth in the Armenian economy.	High	Regional tensions may raise uncertainty, exchange rate pressures, emergency social support and debt levels, while lowering trade, investment, and remittances. An end in the war in Ukraine may divert trade from Armenia.	Prepare, and implement contingency plans, raise revenues and prioritize expenditures, strengthen social safety nets, diversify trade markets/channels, enhance monitoring of the financial sector, increase flexibility of the exchange rate as a shock absorber. Intervene in the FX market in the event of disorderly market conditions.
Social discontent.	Public dissatisfaction with the social support for refugees and handling of regional relations ahead of the 2026 elections lead to suboptimal policies and slow reform momentum.	Medium	Low public support for the cabinet ahead of the elections could lead to policy uncertainty, reducing confidence, putting pressure on the dram, and raising borrowing costs.	Build fiscal and external buffers, reprioritize spending and provide necessary, targeted support to the most vulnerable. Maintain adequate monetary policy stance to curtail inflationary pressures.

Risk	Description	Likelihood	Possible Impact	Policy Advice
Financial sector risks.	Risks could increase due to the rapid increase in house prices and mortgage lending, and sanctions on financial institutions and other businesses.	Medium	Deterioration in asset quality could undermine financial stability and increase government contingent liabilities. Sanctions could cause reputational damage to the economy and increase transaction costs.	Enforce prudential and provisioning rules, consistent with international standards, and strengthen further the supervisory framework, including AML/CFT implementations. Closely monitor financial sector risks and conduct stress tests. Continue with the implementation of risk-based supervision and the early intervention and the resolution frameworks.

Annex II. Illustrative Adverse Scenario

1. Armenia's external sector has been exposed to large and rapidly changing external factors in the past years that could have a negative impact on the economy and international reserves. The baseline outlook predicts satisfactory reserve levels in the near and medium-term, after tapering of transitory factors that have affected the current account balance since 2022. Still, a further adverse shock could worsen the current account and have a negative impact on capital flows and erode existing buffers, inducing balance of payments pressures.

2. Adverse scenario.[1] Staff simulates a further slowdown in goods export that would reflect a contraction in real growth of Armenia's major trading partners as well as global economies, or a redirection of trading partners' demand anticipated to commence in 2025Q2.[2] Lower trading partners' growth, together with lower monetary transfers and gross capital inflows, are expected to lead to scarring of the economy, although growth rates are expected to recover in 2027.

- **Current account.** In an adverse scenario, the export of goods is projected to decline by 18 percent compared to the 2025 baseline, reflecting a shock of two standard deviations based on pre-Covid historical export levels. This decline is due to growth slowdown in export destination partners. Staff also assume a contraction in service exports, of a 2 standard deviation shock, leading to a 21-percent reduction in the net service balance relative to the 2025 baseline. Imports of goods are projected to decrease by 8 percent, representing approximately 1.2 standard deviations of historical import levels. Remittances are anticipated to drop by 45 percent against the 2025 baseline, which corresponds to about 1.6 standard deviations.

- **Financial account.** While under the baseline scenario, net capital inflows are projected to reach USD 900 million in 2025, in the shock scenario, net inflows are expected to decline by approximately 36 percent relative to this amount in the same year (equivalent to a historical standard deviation in other capital flows). Given the high level of financial dollarization in Armenia, this shock can amplify the above shocks and trigger depreciation pressures. In turn, the heightened country risk may make it more challenging to attract capital inflows, including from international capital markets.

3. Effects. The weaker current and financial account position would put downward pressure on the exchange rate, leading to a 20-percent nominal depreciation relative to the baseline in 2025. At the same time, growth and private consumption would decline due to weaker external demand and remittances. A further deterioration in domestic demand and growth could propagate through a decline in housing prices, worsening household and corporate balance sheets, and tightening credit conditions. The current account would initially widen in response to a significant decrease in exports, while inflation would increase, given the pass-through from nominal depreciation. After the initial

[1] The assumptions used in this scenario are more severe than those in the April 2025 World Economic Outlook, Box 1.1., scenario A.

[2] Between 2024 and 2025, goods exports are projected to experience a significant decline under the baseline scenario due to tapering of transit trade (see Table 2).

shock, lower private consumption and the weaker exchange rate would lead to a progressive adjustment to the trade balance, in line with past crisis episodes, allowing the current account to revert gradually to the baseline projection over the medium-term.

Table II.1. Armenia: Impact of a Plausible External Shock

	2025		2026		2027	
	Baseline	Adverse Scenario	Baseline	Adverse Scenario	Baseline	Adverse Scenario
National Income and Prices						
Real GDP (percent change)	4.5	2.5	4.5	3.0	4.5	4.5
CPI (Period average; percent change)	3.2	4.6	3.0	4.0	3.0	3.0
Overall Balance on a cash basis (in percent of GDP)	-5.5	-6.7	-4.5	-4.8	-4.3	-4.6
Central Government Debt (in percent)	52.7	59.3	54.6	60.8	56.4	60.7
Current Account Balance (in percent of GDP)	-4.5	-6.9	-4.8	-7.3	-4.8	-6.4
Gross international Reserves (in millions of U.S. dollars)	3427	2163	3561	2238	3665	2604

Source: National authorities, and IMF staff calculations and projections.

4. Policies. The adverse scenario assumes that monetary tightening will control inflationary pressures from nominal depreciation. The CBA should let the exchange rate serve as a shock absorber in line with its inflation-targeting regime, while remaining ready to implement targeted interventions to avoid disorderly conditions in FX markets. The fiscal deficit would increase by about 1.2 percent of GDP in 2025 as the authorities let automatic stabilizers operate and start on a declining trend, while the fiscal deficit would still exceed the baseline in 2027. A larger budget deficit and the large dram depreciation imply a temporary increase in government debt in 2025 by approximately 7 percentage points of GDP relative to the baseline. Government debt would subsequently stabilize, consistent with a gradual appreciation of the currency and fiscal consolidation.

5. Implications. In a shock scenario, nominal gross international reserves would decline to approximately 73 percent of the ARA metric in 2025, creating a potential balance of payment need. Access to Fund resources at 100 percent of quota (US$ 171 million) and donor financing (US$ 200 million) in 2025 would bring the reserves to 85 percent of the ARA metric by the end of the program. A gradual recovery in goods export as well as further donor financing of US$300 million would ensure that reserves would recover above 90 percent of the ARA metric in 2026. In the event of a significant downturn in the macroeconomic environment, the program modalities can be modified following a request from the authorities and subsequent Board approval.

Table II.2. Armenia: Potential Impact of Adverse Shocks

(In millions of U.S. dollars, unless otherwise indicated)

	Baseline			Shock		
	2025	**2026**	**2027**	**2025**	**2026**	**2027**
Current account	-1,187	-1,288	-1,343	-2,137	-1,345	-1,001
Exports G&S	12,166	12,292	12,536	10,189	11,722	12,336
Imports G&S	-13,223	-13,387	-13,711	-12,053	-12,845	-13,169
Incomes and transfers (net)	-130	-192	-168	-273	-222	-168
Capital & financial account	1,069	1,482	1,466	754	1,482	1,385
Overall balance	-118	194	123	-1,383	136	384
Financing						
Change in reserves (increase -)	252	-133	-104	1,517	-76	-365
Net use of Fund credit (repurchase)	-134	-61	-19	-134	-61	-19
Gross international reserves	3,427	3,561	3,665	2,163	2,238	2,604
As % of ARA metric	**110**	**111**	**112**	**73**	**73**	**81**
Under the proposed IMF-supported program:						
Proposed IMF financing in adverse scenario				171	0	
Assumed financing from development partners 1/				200	300	
Gross international reserves				2,534	2,909	3,275
As % of ARA metric				**85**	**94**	**102**

Source: IMF Staff calculations

1/ Estimated financing necessary to keep reserves close or above 100 of ARA metric during the program period.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Yerevan, June 6, 2025

Dear Ms. Georgieva:

1. **Our economy has shown resilience to multiple shocks and continues to grow robustly.** After remarkably strong growth in 2022–23, real GDP growth decelerated to more sustainable level of 5.9 percent in 2024. Inflation has gradually picked up to 3.3 percent (y-o-y) in March 2025, while inflation expectations remain broadly anchored despite high uncertainty. Fiscal and external positions remain strong, and the banking system is well capitalized and liquid. We continue to work towards the integration of over 100,000 refugees displaced from Nagorno Karabakh, including designing sustainable housing solutions. We met all quantitative performance criteria (QPC) and indicative targets (IT) for end-Dec 2024, except the QPC on budget domestic lending—which we missed by a small amount and without endangering the program fiscal balance target—and we request a waiver for its non-observance given the minor nature of the non-observance. Alongside, we also made steady progress toward meeting the structural benchmarks (SB).

2. **The attached update to the Memorandum of Economic and Financial Policies (MEFP) describes more fully our achievements and further policy steps and reforms to meet our IMF-supported program objectives.** In particular, we remain committed to meeting the 2025 budget deficit target and continuing efforts to strengthen revenue mobilization and expenditure rationalization to ensure fiscal sustainability; maintaining price and financial stability; and advancing reforms to support strong and inclusive private-led growth. However, to better align the program with current developments and facilitate meeting program objectives, we request the following modifications to the program: (i) the end-June MPCC be reset, in line with updated inflation projections and the CBA's revised inflation target; and (ii) the September 2025 SB on early intervention framework be modified to allow sufficient time for public consultation. In addition, we have implemented the May 2025 SB on MTEF adoption ahead of this review (prior action) to ensure timely formulation of the envisaged fiscal path and facilitate preparations of the 2026 budget.

3. **Based on steps that we have already taken and commitments under the program, we request completion of the fifth review.** We continue to treat the arrangement as precautionary and will only consider making purchases if our balance of payments deteriorates materially.

4. **We will maintain a close policy dialogue with the Fund and stand ready to take additional measures, as appropriate, to ensure the achievement of our social and economic objectives under the IMF–supported program.** We will continue to consult with the Fund on the adoption of measures, and in advance of any revisions to the policies contained in the attached MEFP in accordance with the Fund's policies on such consultation. We will also provide the Fund

with information it requests for monitoring program implementation. Reaffirming our commitment to transparency, we consent to the IMF's publication of this letter, along with the attached MEFP and the Technical Memorandum of Understanding (TMU), as well as the IMF staff report on the fifth review of the SBA, subject to Executive Board approval.

Yours sincerely,

/s/
Nikol Pashinyan
Prime Minister

/s/	/s/
Vahe Hovhannisyan	Martin Galstyan
Minister of Finance	Governor, Central Bank of Armenia

Attachment I. Memorandum of Economic and Financial Policies

1. This memorandum supplements our memorandum of November 22, 2024, provides information on recent developments, documents our achievements, and discusses further policy steps and reforms needed to meet our IMF-supported program objectives.

A. Recent Economic Developments and Outlook

2. Armenia's economic activity remains strong. Real GDP growth reached 5.9 percent in 2024, supported by robust domestic consumption and investment. Employment growth has remained steady, and inflation has gradually picked up to 3.3 percent y/y in March, driven by food prices. The current account deficit widened to 3.9 percent of GDP in 2024, as trade, tourism, and remittances continue to normalize. Capital inflows have supported the dram, while gross international reserves grew to US$3.6 billion at end-2024. The 2024 fiscal deficit at 3.7 percent of GDP was lower than projected due to expenditure containment, and central government debt remained moderate at 48 percent of GDP. Banks have strong capital and liquidity buffers, and their profitability remains high given buoyant credit growth.

3. We expect growth to converge to its potential in 2025. The continued slowdown of trade, tourism, and financial inflows is expected to steer growth to its long-term trend in 2025. Inflation is projected to remain around the CBA's inflation target by end-2025. Risks to the outlook stem from the unprecedented uncertainty related to the ongoing global trade tensions and potential slowdown in the growth of trading partners. Regional geopolitical shifts, which could lead to a reversal of recent capital inflows and FX volatility, also weigh on the outlook.

B. Economic Policies for the Remainder of 2025 and Beyond

Fiscal Policy

4. We are committed to fiscal prudence and meeting our 2025 budget targets in line with the SBA-supported program. We expect revenue buoyancy to improve with our tax policy measures and ongoing revenue administration efforts. Priority spending needs, including to support refugees from Nagorno-Karabakh, national security, social protection, education, and infrastructure are expected to remain manageable and within our 2025 budget targets. We will allocate any revenue over-performance to improve fiscal buffers. To secure adequate external financing, we issued a US$ 750 million Eurobond in March 2025.

5. In the medium term, the fiscal path will ensure fiscal sustainability, while supporting Armenia's economic development. The upcoming 2026–28 Medium-Term Expenditure Framework (MTEF) will continue prioritizing spending on national security, infrastructure, healthcare, social protection, and refugee integration. In collaboration with our development partners, we are designing sustainable housing solutions for vulnerable households. We have also piloted a new family benefit system to improve targeting and efficiency of social protection spending. Over the medium term, expenditure prioritization and revenue mobilization will support fiscal consolidation to maintain a moderate debt level. To this end, as a ***prior action*** we have adopted a 2026–28 MTEF targeting an overall fiscal deficit of 4.5 percent of GDP in 2026, a declining deficit thereafter, and a 2028 deficit of no more than 3.8 percent of GDP.

6. **Expenditure rationalization measures will support our medium-term fiscal path**. With IMF support, we have conducted a study to identify a menu of 1.0 percent of GDP rationalization measures in primary current expenditures that will support the preparation of the 2026 budget. In particular, we will curtail inefficient, redundant, and non-priority programs.

7. **We continue strengthening revenue mobilization to accommodate growing spending needs.**

- *Tax Policy*. Already legislated amendments to the turnover tax, environmental taxes on imported vehicles, excises on beverages, tobacco and other products, and stamp duties on gambling are expected to yield 0.6 percent of GDP in additional tax revenues in 2025–26. We are continuing to restrain the use of tax incentives, including by revising the scope of exemptions on electric vehicles, phasing out the mortgage interest tax credit, and limiting other income tax exemptions and tax credits. We have also started discussions on introducing a capital gains tax.

- *Revenue administration*. We are making progress with the phased rollout of the universal PIT declaration, which will become mandatory for all individual taxpayers by 2026. To ensure an efficient rollout and high level of compliance, we will strengthen communication, simplify procedures, reduce administrative burdens, and improve the underlying digital infrastructure. The expected parliamentary adoption of tax code amendments to empower SRC to audit all natural persons, including by using third-party data sources and indirect tax assessment methods, will ensure the effectiveness of this reform. Moreover, to modernize our audit program and reduce identified tax gaps, we have initiated a diagnostic assessment of our toolkits, including an evaluation through the Tax Administration Diagnostic Assessment Tool (TADAT) with IMF support.

8. **We are steadily advancing our public financial management reforms**.

- *Fiscal Framework*. We are completing a comprehensive review of the MTEF and the annual budget process to identify gaps and weaknesses in their effective implementation. To strengthen medium-term fiscal planning, we have provided guidelines to line ministries to improve baseline costing and updated the budget calendar to allow more time for policy deliberations on new programs. We will prepare a three-year budget framework for 2026–28 with indicative expenditure envelopes for line ministries for 2027–28, which will assist in the transition to a more efficient rolling baseline system and smoother implementation of capital spending. Informed by IMF CD, we will continue to engage line ministries in budget preparation activities and develop their baseline costing and budget preparation capacity.

- *Public Investment Management (PIM)*. To strengthen the PIM framework, we have aligned the definition of public investment projects in the Budget System Law (BSL) with that of the PIM decree. Further, the institutional management of PIM is being transferred to a newly created unit at the MOF, which will support its integration into the budgetary process. We will conduct a Public Investment Management Assessment (PIMA) to evaluate the current framework and identify key areas for improving efficiency of public investment.

- *Fiscal Risk Management*. We are completing the preparation of a state ownership policy defining the rationale for owning SOEs, strengthening the MOF's financial and fiscal oversight of these enterprises, ensuring appropriate assessment of fiscal risks, and providing a roadmap for divesting from commercial enterprises that do not align with the SOE's policy goals. To set robust budget constraints for SOEs, we will establish a process and criteria for budget lending in the budget system law and an effective monitoring mechanism. We have also developed legislation to restrict the uptake of contingent liabilities arising from PPPs. Additionally, we are making progress in enhancing the transparency, accounting, and recognition of PPP-related liabilities, and in establishing comprehensive rules on debt accumulation stemming from budgetary loans, government guarantees, and PPP commitments. Further, to limit fiscal and legal risks, we will conduct thorough due diligence on all active PPP contracts and develop capacity within the PPP unit for their ongoing monitoring.

- *Organization of the Ministry of Finance (MoF)*. We will reorganize the MoF to ensure more strategic use of our managerial resources, clear delegation and responsibility lines, more flexible coordination among core functions, and better ability to engage with line ministries. We have introduced a system of objectives and key results (OKR) to monitor progress in internal institutional reforms and the Ministry's strategic priorities and will define appropriate Key Performance Indicators (KPIs).

Monetary and Financial Sector Policies

9. **The CBA remains committed to its price stability objective**. Amid low inflationary pressures and to ensure a return of inflation to the CBA's target of 3 percent, we have reduced the policy rate by a cumulative 400 basis points since June 2023, bringing it to 6.75 percent as of February 2025, and have held policy rates steady since then. In view of the significant uncertainty to the inflation outlook, we will continue monitoring closely economic developments and inflation expectations. We stand ready to adjust policy rates if inflation expectations start to drift away from the target. The risk-based approach to monetary policy decision making has been working well so far, and its robustness and effectiveness continue to be evaluated. We remain committed to a flexible exchange rate regime and a strong international reserve position. Foreign exchange interventions will remain confined to addressing disorderly market conditions.

10. **We are closely monitoring financial stability risks**. Following years of strong growth, real estate prices have decelerated with the phase out of the mortgage interest tax credit. Our macro-financial stress test continues to show that the banking system is resilient and can withstand a severe adverse shock thanks to its capital and liquidity buffers. The countercyclical capital buffer (CCyB), set at 1.75 percent of risk-weighted assets, together with the capital conservation ratio play an important role in enhancing banking sector's resilience to unexpected credit losses and we are prepared to increase it if there is a significant shift in systemic risk. We continue to monitor broader economic conditions and refine borrower-based indicators and stand ready to deploy, as needed, additional macroprudential tools to contain household debt burden and sectoral risks to preserve financial stability. We plan to

tighten the regulations on the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), to address potential risks related to deposit concentration and foreign currency deposits of nonresidents.

11. We are advancing our efforts to enhance the supervisory toolkit and capacity. We have completed the impact study on the interest rate risk in the banking book (IRRBB) and will take supervisory actions requiring banks to implement more robust interest-rate risk management practices and stress-testing methodologies through the Internal Capital Adequacy Assessment Process (ICAAP). We are concluding the Supervisory Review and Evaluation Process (SREP), which requires implementing significant changes in the risk-based supervisory framework and building capacity. We are also developing draft amendments to the Law on CBA, the Law on Banks and Banking, and other relevant legal acts to define risk-based supervision, specifying that the CBA has the power to impose early intervention measures based on assessment of risks of financial institutions. The draft will be submitted for public consultation by end-September 2025.

12. We are finalizing the preparation of a draft law on bank resolution, aligned with the Financial Stability Board's Key Attributes of Effective Resolution regimes for Financial Institutions. Discussions between the CBA and the MoF to clarify the government's last-resort responsibility for resolution funding and the appropriate level of information sharing have resulted in the inclusion of a legal provision on emergency state assistance in the draft bank resolution law, which may require subsequent amendments to other relevant laws. This will ensure a well informed and efficient process of securing resolution funding, while balancing fiscal risks and preserving the CBA's independence as the supervisor and resolution authority. The draft bank resolution law has been approved by the CBA Board and will be submitted for cabinet approval by end-June and to parliament by September 15, 2025.

Structural Reforms

13. We remain committed to advancing structural reforms and strengthening the economy's resilience to future shocks. To facilitate smooth implementation of our whole-of-government reform strategies, we will ensure that high-level coordination with MOF's participation supports prioritization, limits duplicative efforts and aligns program costing with the MTEF.

- *Labor market.* We have developed an action plan for the effective implementation of the recently adopted employment strategy, which aims to prioritize training and upskilling measures within the MTEF envelope. In 2025, we are taking a pilot approach with a focus on reskilling and labor market integration of vulnerable groups and women to test the efficacy of selected proposed labor policy measures on a small scale before fully rolling them out. To this end, we are also preparing an interim report on the effectiveness and costs of the ongoing pilot program for skill development and integration of refugees to inform evidence-based policy making.

- *Trade diversification*. We have prepared a national export strategy—together with a results framework with concrete policy actions—aimed at addressing key bottlenecks to export growth and diversification, expected to be approved by end-June. We are prioritizing horizontal reforms that help to remove regulatory barriers, harness existing trade agreements, improve efficiency of border processing, and reduce information asymmetry to support export growth with cost-effective and non-distortionary measures.

- *Business environment*. We have submitted for public consultation a new comprehensive legal framework for the financial rehabilitation and liquidation processes of corporate and individual entrepreneurs. It includes provisions that strengthen creditor protection, by requiring the approval of financial rehabilitation plans by creditor classes and providing safeguards for dissenting creditors. At the same time, the proposed regulations aim to protect the interests of debtors, ensuring a balanced approach that both shields creditors from unlawful actions and deters attempts by creditors to obstruct the financial rehabilitation process. We will submit the legislation for cabinet discussion by end-June, and to parliament by end-October. To improve accountability and transparency of listed companies, we are designing mechanisms for enforcement of the revised corporate governance code.

C. Program Monitoring and Safeguards

14. The program will continue being monitored through quantitative performance criteria, indicative targets (Table 1), a monetary policy consultation clause, and structural benchmarks (Tables 2a and 2b). The sixth review is expected to be completed on or after November 21, 2025.

15. The CBA will take further actions to address outstanding safeguards recommendations. The IMF safeguards assessment completed in September 2023 confirmed that the CBA maintains a strong safeguards framework, has well established safeguards in its external and internal audit arrangements, and sound financial reporting practices. The CBA has taken steps, with support from IMF technical assistance, to advance the implementation of the safeguards' recommendations. The internal delegation framework has been updated, a new CBA Charter is currently under preparation, and drafting of the CBA Law amendments in accordance with the IMF recommendations is expected to start this year. Since the beginning of 2025, the CBA has established a dedicated unit for enterprise level risk management and a centralized risk management committee. We have also strengthened our audit and internal controls capacity and continue to work towards feasible steps to address recommendations related to development lending to banks. Finally, we have agreed on a strategy for divestment from a subsidiary of the central bank that should be completed by 2028.

Table 1. Armenia: Quantitative Performance Criteria, 2022–23 1/

(In billions of drams, at program exchange rates, unless otherwise specified)

	2022				2023											
	Dec 2/				Mar. 3/		Jun. 2/				Sep. 3/		Dec. 2/			
	Target	Adj. Target	Act.	Status	Indic. Target	Act.	Target	Adj. Target	Act.	Status	Indic. Target	Act.	Target	Adj. Target	Act.	Status
Performance Criteria																
Net official international reserves (stock, floor, in millions of U.S. dollars) 4/	1,600	1,457	1,703	met	1,531	1,721	1,654	1,377	2,125	met	1,556	2,286	2,010	1,793	1,901	met
Program fiscal balance (flow, floor) 4/5/ 9/	-384		-321	met	-124	50	-211		70	met	-314	-87	-465	-643	-537	met
Budget domestic lending (cumulative flow, ceiling) 4/9/	5		0.3	met	10	0.0	10		0.1	met	10	0.1	10		4.4	met
External public debt arrears (stock, ceiling, continuous criterion)	0		0	met	0	0	0		0	met	0	0	0		0	met
MPCC 6/																
Inflation (upper-outer band, inflation consultation, percent)	12.5				11.5		8.0				7.5		5.0			
Inflation (upper-inner band, percent)	11.5				10.5		7.0				6.5		4.0			
Inflation (mid-point, percent)	10.0		8.3	met	9.0	5.4	5.5		-0.5	not met	5.0	0.1	2.5		-0.6	not met
inflation (lower-inner band, percent)	8.5				7.5		4.0				3.5		1.0			
Inflation (lower-outer band, inflation consultation, percent)	7.5				6.5		3.0				2.5		0.0			
Indicative Targets																
New government guaranteed external debt (stock, ceiling, in millions of USD) 7/	100		0	met	100	0	100		0	met	100	0	100		0	met
Social assistance spending of the government (flow, floor) 8/ 9/	65.0		75.9	met	20.0	21	40.1		41.7	met	60.1	64.6	80.2		85.1	met

Sources: Armenian authorities; and Fund staff estimates.

1/ All items as defined in the TMU, based on program exchange rates in the TMU.

2/ Quantitative performance criteria at test dates.

3/ Indicative target.

4/ March 2025 data are preliminary.

5/ Below-the-line overall balance excluding net lending.

6/ If the end of period year-on-year headline inflation is outside the upper-outer/lower-outer band, a formal consultation with the Executive Board as part of program reviews would be triggered.
If the end of period year-on-year headline inflation is outside the upper-inner/lower-inner band, an informal consultation with IMF staff as part of program reviews would be triggered.

7/ Includes both concessional and non-concessional debt, excluding the Eurobond and any similar refinancing instruments.

8/ Defined as spending on the Family Living Standards Enhancement Benefits, childcare benefits for children less than two years of age, and Allowances for old age, disability, and loss of breadwinner.

9/ Cumulative limit.

Table 1. Armenia: Quantitative Performance Criteria, 2024–25 1/ (Concluded)
(In billions of drams, at program exchange rates, unless otherwise specified)

	2024														2025							
	Mar. 3/			Jun. 2/				Sept 3/			Dec. 2/				Mar. 3/				Jun. 2/		Sept 3/	
	Indic. Target	Adj. Target	Act.	Target	Adj. Target	Act.	Status	Indic. Target	Adj. Target	Act.	Target	Adj. Target	Act.	Status	Indic. Target	Adj. Target	Act.	Status	Target	Proposed Rev. Target	Indic. Target	Proposed Rev. Indic. Target
Performance Criteria																						
Net official international reserves (stock, floor, in millions of U.S. dollars) 4/	2,021	1,998	1,705	1,400	1,405	1,805	met	1632	1632	2055	1801	1729	2,123	met	1,700	1,813	2,336	met	1,600	1,600	1,650	1,650
Program fiscal balance (flow, floor) 4/5/ 9/	-121	-120	13	-198	-198	23	met	-336	-336	-51	-519	-496	-360	met	-129	-129	64	met	-288	-288	-382	-382
Budget domestic lending (cumulative flow, ceiling) 4/9/	10	10	3.6	10	10	3.8	met	10	10	3.8	10.5	10.5	12.0	Not met	26.1	26.1	0.0	met	26.1	26.1	26.1	26.1
External public debt arrears (stock, ceiling, continuous criterion)	0	0	0	0	0	0	met	0	0	0	0	0	0	met	0				0	0	0	0
MPCC 6/																						
Inflation (upper-outer band, inflation consultation, percent)	6.5	6.5		5.8	5.8			6.5	6.5		3.5	3.5			5.2	5.2			6.0	6.2	6.2	6.0
Inflation (upper-inner band, percent)	5.5	5.5		4.8	4.8			5.5	5.5		2.5	2.5			4.2	4.2			5.0	5.2	5.2	5.0
Inflation (mid-point, percent)	4.0	4.0	-1.2	3.3	3.3	0.8	met	4.0	4.0	0.6	1.0	1.0	1.5	met	2.7	2.7	3.3	met	3.5	3.7	3.7	3.5
inflation (lower-inner band, percent)	2.5	2.5		1.8	1.8			2.5	2.5		-0.5	-0.5			1.2	1.2			2.0	2.2	2.2	2.0
Inflation (lower-outer band, inflation consultation, percent)	1.5	1.5		0.8	0.8			1.5	1.5		-1.5	-1.5			0.2	0.2			1.0	1.2	1.2	1.0
Indicative Targets																						
New government guaranteed external debt (stock, ceiling, in millions of USD) 7/	100	100	0	100	100	0	met	100	100	0	100	100	0	met	100	100	0	met	100	100	100	100
Social assistance spending of the government (flow, floor) 8/ 9/	22.0	22.0	23.6	44.0	44.0	48.0	met	69.0	69.0	72.4	94.0	94.0	97.5	met	23.0	23.0	25.1	met	48.0	48.0	73.0	73.0

Sources: Armenian authorities; and Fund staff estimates.

1/ All items as defined in the TMU, based on program exchange rates in the TMU.

2/ Quantitative performance criteria at test dates.

3/ Indicative target.

4/ March 2025 data are preliminary.

5/ Below-the-line overall balance excluding net lending.

6/ If the end of period year-on-year headline inflation is outside the upper-outer/lower-outer band, a formal consultation with the Executive Board as part of program reviews would be triggered.
If the end of period year-on-year headline inflation is outside the upper-inner/lower-inner band, an informal consultation with IMF staff as part of program reviews would be triggered.

7/ Includes both concessional and non-concessional debt, excluding the Eurobond and any similar refinancing instruments.

8/ Defined as spending on the Family Living Standards Enhancement Benefits, childcare benefits for children less than two years of age, and Allowances for old age, disability, and loss of breadwinner.

9/ Cumulative limit.

Table 2a. Armenia: Prior Actions and Structural Benchmarks Under the SBA

Deadline	Status	Macro Criticality	Responsible Agency	Measure
Fiscal Policy and Fiscal Structural Reforms				
December 2022	Met (prior action)	Ensure macro-fiscal stability	MOF	Adopt 2023 budget with an overall deficit of around 3 percent of GDP.
March 2023	Met (prior action)	Improve public financial management and reduce fiscal risks	DPM/MOE/MOF	Adopt a government decree clarifying the mandate, reporting, transparency, and viability requirements for ANIF and its subsidiaries, based on the concept note developed for public sector units.
March 2023	Met	Improve tax compliance	DPM/CBA/MOF/ SRC	Amend the legislation to allow exchange of bank account information for legal entities on request to verify information provided by taxpayers between the banks and SRC, and to allow SRC access to bank account information for legal entities refusing to provide it upon a court order.
June 2023	Met	Mobilize tax revenue	MOF/SRC	Publish a detailed assessment of tax expenditures and an action plan for their rationalization.
June 2023	Not met/ implemented with delay	Improve public financial management and reduce fiscal risks	DPM/MOE/MOF	Develop an action plan to strengthen the PIM institutional framework and processes, by identifying and addressing the bottlenecks to ensure an effective cycle of planning, budgeting, implementing, and monitoring of large capital projects.
September 2023	Not met/ implemented with delay		MOF	Develop a concept note on monitoring, approval, and control framework related to local governments and local government borrowing.
December 2023	Met	Improve efficiency of civil service compensation	MOF	Publish the terms of reference to develop software design for the implementation of a module with basic employee data as part of the new public sector accounting system of the Government Financial Management Information System (GFMIS), with the aim to improve central government wage bill data quality.
December 2023	Met (prior action)	Prevent overheating of the economy	MOF	Adopt a 2024 budget with an overall deficit of 4.6 percent of GDP.
March 2024	Not met/implemented with delay	Improve public financial management	MOF	Complete a functional review of the Ministry of Finance, as a step towards an eventual review of all general government institutions.
March 2024	Not met/implemented with delay	Improve public financial management	MOF	Adopt a Concept Note for a State Ownership Policy, defining the rationale for owning SOEs and the government's role in their oversight.
June 2024	Not met/ Implemented with delay	Improve tax compliance	MOF/SRC	Submit to parliament an amendment to the Tax Code to empower the SRC with authority to audit natural persons and include broader indirect audit methods.
September 2024	Not met/Implemented with delay	Improve public financial management	DPM/MOE/MOF	Submit to parliament an amendment to the Budget System Law and revise the PIM decree to clarify the definition of public investment projects in both legal frameworks.
December 2024	Met	Mobilize tax revenue and improve progressivity	MOF/SRC	Submit to parliament, during the course of 2023–24, tax policy reforms yielding at least 0.75 percent of GDP in additional revenue cumulatively by 2026.
December 2024	Met (prior action)	Ensure macro-fiscal stability	MOF	Adopt a 2025 budget with an overall deficit of 5.5 percent of GDP

Table 2a. Armenia: Prior Actions and Structural Benchmarks Under the SBA (Continued)

May 2025	Proposed as a prior action	Ensure macro-fiscal stability	MOF	Adopt a 2026–28 Medium-Term Expenditure/Fiscal Framework (MTEF/MTFF) targeting an overall fiscal deficit of 4.5 percent of GDP in 2026 —including an explanation of key policies/measures required to achieve it— followed by a further decrease in the overall fiscal deficit in 2027–28.
July 2025			MOF	Conduct a study to identify a menu of 1.0 percent of GDP rationalization measures in primary current expenditures.
June 2025		Improve public financial management and reduce fiscal risks	MOF	Approve a government decree adopting a state ownership policy based on the previously approved concept note, along with an action plan aimed at implementing the policy.
June 2025		Improve public financial management and reduce fiscal risks	MOF	Complete a comprehensive review of the MTEF and the annual budget process to identify gaps and weaknesses that hinder their effective implementation and measures that strengthen medium-term fiscal planning, including by allowing more time for policy deliberations, increasing budget flexibility, and ensuring smoother implementation of capital spending.
Continuous since December 2024	Met	Prevent revenue erosion and ensure effectiveness of investment incentives	MOF/MOE	Provide a justification, a comprehensive cost assessment, and a set of measures, as necessary, to prevent potential revenue loss from any new planned tax incentives.
Monetary Policy and Financial Sector Reforms				
March 2023	Met	Capital market development	CBA	Facilitate the introduction of an over-the-counter commercial trading platform for the overnight repo market.
June 2023	Met	Strengthen the regulatory and supervisory framework	CBA	Develop a formal roadmap for introduction of Pillar 2 capital buffers.
December 2023	Met	Mitigate real estate market risks	CBA	Conduct a thorough macro-financial stress testing exercise with an adverse scenario that implies a rise in balance sheet stress of property developers, significant deterioration of household income, and a sharp decline in house prices
March 2024	Met	Enhance monetary policy transparency	CBA	Prepare and adopt an enhanced CBA communication strategy on monetary policy.
December 2024	Not met/Implemented with delay	Strengthen the regulatory and supervisory framework	CBA	Conduct an impact study of the interest rate risk in the banking book (IRRBB), using the methodologies indicated in the Basel framework.
March 2025	Not met/expected to be implemented by September 15, 2025		CBA	Prepare and submit to parliament a draft law for an enhanced bank resolution framework that is in line with the Financial Stability Board's Key Attributes for Effective Resolution Regimes for Financial Institutions.
September 2025	Proposed to be modified	Improve central bank effectiveness	CBA	Submit to parliament an amendment to the Central Bank Law and, if relevant, other laws to allow the implementation of an early intervention framework by supervisors.
Structural Reforms				
June 2023	Met	Infrastructure development	DPM/MOF/MTAI	Conduct a study to identify bottlenecks in the execution of foreign-funded projects.

Table 2a. Armenia: Prior Actions and Structural Benchmarks Under the SBA (Concluded)				
September 2023	Met	Improve the business environment	MOI	Draft and submit the concept paper on the review of the legislation on bankruptcy.
September 2023	Met ahead of schedule		MOE	Expand the agricultural insurance scheme to cover more risks, regions, and crops.
December 2023	Not met/implemented with delay	Improve the business environment	MOE	Approve the newly revised corporate governance code.
January 2024	Met	Improve the business environment and access to finance.	MOJ	Adoption and submission to Cabinet of the concept note for insolvency reform, aiming to increase the protection of creditor rights, improve the efficiency of insolvency processes, upgrade the restructuring toolbox, and increase the capacity of insolvency administrators.
June 2024	Not met/ Strategy adopted in December 2024; costing still pending	Enhance labor force participation and boost employment.	MLSA	Approve a costed employment strategy that details plans to bolster active labor market policies and modernize labor market statistics to inform the implementation of employment policies.
March 2025	Not met/ Expected to be implemented by end-June	Support export-oriented growth	MOE	Complete and approve an export strategy that identifies and streamlines bottlenecks to export expansion.
June 2025		Ensure effectiveness of labor market policies	MLSA	Complete an interim report on the effectiveness and costs of the ongoing pilot program for skills development and job recruitment of refugees
October 2025		Improve the business environment and access to finance.	MOJ	Submit to parliament legislation to improve the effectiveness of insolvency proceedings and strengthen the protection of creditor rights, in line with international standards.

Table 2b. Armenia: New Prior Action and Proposed Modification of a Structural Benchmark

Deadline	Status	Macro Criticality	Responsible Agency	Measure
Fiscal Policy and Fiscal Structural Reforms				
Prior Action		Ensure macro-fiscal stability	MoF	Adopt a 2026–28 Medium-Term Expenditure (MTEF) with an overall fiscal deficit of 4.5 percent of GDP in 2026, a declining deficit thereafter, and a 2028 deficit of no more than 3.8 percent of GDP.
September 2025	Proposed to be modified	Improve central bank effectiveness	CBA	Submit for public consultation an amendment to the Central Bank Law and, if relevant, other laws to support the adoption of a risk-based supervisory approach and allow the implementation of an early intervention framework by supervisors.

Attachment II. Technical Memorandum of Understanding

1. This memorandum sets out understandings between the Armenian authorities and the IMF staff regarding the definition of performance criteria (PCs) and indicative targets (ITs), adjusters, and data reporting requirements for the Standby Arrangement as per the Letter of Intent and Memorandum of Economic and Financial Policies (LOI/MEFP) dated June 6, 2025.

2. For program monitoring purposes, all foreign currency-related assets, liabilities, and flows in the monetary accounts will be evaluated at program exchange rates. The program exchange rate of the Armenian dram to the U.S. dollar is set at 405.65 dram per one U.S. dollar. The cross-rates for other foreign currencies are provided in Table 2.

Quantitative Targets

3. The program sets PCs, ITs, and the Monetary Policy Consultation Clause (MPCC) for defined test dates (see Table 1 in the MEFP).

The program sets the following PCs:

- Floor on the net official international reserves (NIR) of the Central Bank of Armenia (CBA);
- Floor on the program fiscal balance;
- Ceiling on domestic budgetary lending; and,
- Ceiling on the stock of external public debt arrears (continuous).

The program sets the following ITs:

- Ceiling on new government guaranteed external debt; and,
- Floor on social spending of the government.

The program sets the following MPCC:

- Headline inflation.

4. **The net official international reserves** (NIR) (stock) of the Central Bank of Armenia (CBA) will be calculated as the difference between total gross official international reserves (excluding commercial bank required and excess reserves at CBA in FX) and gross official reserve liabilities.

- **Gross official international reserves** are defined as the CBA's holdings of monetary gold (excluding amounts pledged as collateral), holdings of Special Drawing Rights (SDRs), including SDR allocations, the country's reserve position at the IMF, and holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments). Margin accounts in FX and the net amount arising from FX swaps and swap liabilities are also included. Gross reserves held in the form of securities and other financial instruments are marked to market. Excluded from gross reserves are the balance on the government's Special Privatization Account (SPA), capital subscriptions in foreign financial institutions and illiquid foreign assets, any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

- **Official reserve liabilities** shall be defined as the total outstanding liabilities of the government and the CBA to the IMF (excluding SDR allocations) and convertible currency liabilities of the CBA to nonresidents with an original maturity of up to and including one year, as well as commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options).

NIR is monitored in U.S. dollars, and, for program monitoring purposes, assets and liabilities in convertible currencies other than the U.S. dollar shall be converted into dollar-equivalent values using the convertible exchange rates as specified in Table 2.

5. MPCC headline inflation is defined as the year-on-year rate of change of the Consumer Price Index as measured by Armenia's National Statistics Service. The MPCC will be considered met if headline inflation falls within the upper and lower outer bands around the mid-point target specified in Table 1 in the LOI/MEFP. Consultation with IMF Board would be triggered for end June 2025 test date if inflation falls outside the outer bands. The consultation with the Board will be on the reasons for the deviation and the proposed policy response before further purchases could be requested under the SBA. Specifically, the consultation will explain (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for deviations from the specified band, taking into account compensating factors; and (iii) on proposed remedial actions, as deemed necessary. In addition, a staff consultation clause whereby the CBA will consult with IMF staff on the outlook for inflation and the proposed policy response will be triggered if inflation falls outside the inner bands and within the outer bands (Table 1 in the LOI/MEFP) for the June 2025 test date.

Inflation Consultation Bands

	Jun-25	Sept-25
Upper outer band	6.2	6.0
Upper inner band	5.2	5.0
Center point	**3.7**	**3.5**
Lower Inner band	2.2	2.0
Lower outer band	1.2	1.0

Source: IMF Staff.

6. External public debt arrears are defined as external debt obligations of the government that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods).[1] This PC excludes arrears on external financial obligations of the government subject to rescheduling.[2] This PC is to be monitored continuously by the authorities

[1] The term debt will be understood as defined in Guidelines on Public Debt Conditionality in Fund Arrangements, IMF Policy Paper, 2020/061.

[2] The public sector is here defined following the Government Financial Statistics Manual (GFS 2001) and System of National Accounts (1993 SNA). It includes the general government and nonfinancial public enterprises (as defined in paragraph 14).

and any occurrence of new external arrears should be immediately reported to the Fund. The ceiling on external payment arrears is set at zero.

7. **The program fiscal balance** is cumulative from the beginning of the fiscal year and is measured from the financing side as the negative of the sum of net domestic banking system credit to the central government, net domestic nonbank financing, and net external financing to the central government. Should a general subsidy or any other fiscal transaction be introduced off-budget, the overall balance will be measured including the subsidy and other fiscal transactions as part of government spending.

- **Net banking system credit to the central government** equals the change during the period of net credit to the central government.

- **Net nonbank financing** equals the sum of: (1) the change during the period of outstanding treasury bills and bonds to nonbanks (including accrued interest for treasury bills and excluding accrued interest for treasury bonds);[3] (2) any other disbursement or transaction that increases nonbanks' claims on the central government plus withdrawals from the Special Privatization Account (SPA) or the treasury sub-account containing privatization proceeds in drams, less amortization paid by the central government to private resident nonbank agents.

- **Net external financing** equals total debt-increasing disbursements from non-residents to the central government (including Fund net purchases credited directly to the government accounts at the CBA) less total amortization from the central government to non-residents. Net external financing also includes any privatization proceeds received from non-residents in foreign currency and not held in the SPA.

8. **Budgetary ER.** Foreign currency-denominated transactions take place at the prevailing market ER at the time of the transaction. The framework arrangement will not be modified (in substance) but may be clarified to the extent necessary to avoid noncompliance with the program continuous PC on non-introduction of new exchange restrictions and multiple-currency practices, or intensification/modification of existing ones.

9. External and domestic net lending, which are recorded as financing items, are excluded from the calculation of the program fiscal balance, which is calculated from the financing side (see ¶7). This effectively treats net lending as an expenditure item when loans are made and as a revenue item when the loans are repaid.

10. Transactions related to the extension of the operating life of the Metsamor nuclear power station —which will take place via lending from the Russian Federation to the Ministry of Finance of Armenia and from the MoF of Armenia to the Armenian Nuclear Power Plant JSC—will be excluded from the measure of the program fiscal deficit.

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[3] Domestic nonbank holdings of treasury bills and treasury bonds are defined as total outstanding treasury bills and bonds less holdings by the banking system and the State Fund for Social Insurance.

11. Some project implementation units maintain accounts at the CBA. Grants received by these units are recorded in the fiscal accounts as external grants on the revenue side and as foreign-financed expenditure on the expenditure side. In addition, any loans to finance investments that are intermediated through the banking system are recorded in the financial accounts as a financing item below the line and are thus excluded from net lending.

12. Foreign currency proceeds from selling enterprises are credited to the SPA and their use is reflected in the state budget. In addition, the Government will ensure full transparency of revenues and spending from the sales of major assets (beyond regular day-to-day operations) of enterprises with state ownership. The SPA is held at the CBA and the proceeds are invested abroad together with the CBA's international reserves. These proceeds are included in the definition of the monetary accounts of the CBA as part of net foreign assets with a counter entry in other items net. Any withdrawal from the SPA will be accounted for as privatization proceeds used to finance the budget and will be recorded below the line. Domestic currency proceeds from selling enterprises to residents are deposited in a sub-account of the treasury single account and are also treated as a financing item and recorded below the line. Finally, as noted in ¶7, privatization proceeds received from non-residents in foreign currency and not held in the SPA are also treated as a financing item (sale of financial assets) and recorded below the line.

13. **Domestic budgetary lending** is defined as the gross amount of new loans made to resident individuals, enterprises, or entities financed from the state budget or other general government resources. This includes, but is not limited to, loans financed from the Economic Stabilization Fund and lending under existing or prospective government programs, such as agricultural sector support and real estate development programs, among others. Lending operations related to targeted projects financed with external loans and grants will be excluded from the calculation of the ceiling on budget domestic lending.

14. **Ceiling on government guaranteed external debt.** A cumulative ceiling (IT) of $100 million for the program period applies to new government guarantees of the total of concessional and non-concessional external financing, excluding the Eurobond and any similar refinancing instruments. The issuance of debt guarantees will be measured at the exchange rates listed in Table 2. The above limit covers debt guarantees issued by the general government to entities outside the general government (excluding the CBA). Guarantee issuance will be monitored on a monthly basis and the Ministry of Finance will provide data within 21 days from the end of the month.

15. The program sets a floor on **social assistance spending of the government**. For the purposes of the program, social assistance spending of the government comprises the Family Living Standards Enhancement Benefits, childcare benefits for children less than two years of age, and allowances for old age, disability, and loss of breadwinner.

16. The quantitative performance criteria and indicative targets under the program are subject to the following **adjusters**, calculated, where relevant, using program exchange rates:

- **Budget support grants to the public sector** are defined as grants received by the general government for direct budget support from external donors and not related to project financing.

- **Project support grants** are defined as grants received by the general government for public sector projects.

- **Budget support loans to the public sector** are defined as disbursements of commercial loans (e.g., Eurobonds), loans from bilateral and multilateral donors for budget support, and Fund purchases credited directly to the government accounts at the CBA.

- **Project financing to the public sector** is defined as disbursements of loans from bilateral and multilateral donors for public sector projects.

- **The floor on NIR** will be adjusted upward (downward) by the cumulative amount of any excess (shortfall) of budget support grants and loans, CBA project financing, EEU customs pool transfers, and government IFI-supported project financing loans and grants (including for on-lending) disbursed through the CBA, compared to program amounts as indicated in Table 3. The floor on NIR will be adjusted downward for any external public debt amortization amounts in excess of program amounts. The floor on NIR will be adjusted upwards by the amount of any funds received for privatization proceeds received from non-residents in foreign currency and not held in the SPA.

- **The floor on the program fiscal balance on a cash basis** will be adjusted upward (downward) by the cumulative total amount of the budget support grants received in excess (to account for a shortfall) of the program amounts (Table 3), subject to a cap of $100 million per year in either direction. The floor on the program fiscal balance on a cash basis will also be adjusted downward (upward) by the cumulative total amount of the IFI-supported project financing loans received in excess (to account for a shortfall) of the program amounts (Table 3), subject to a cap of $100 million in either direction. Finally, the floor on the program fiscal balance will be adjusted downward by a maximum of AMD 20 billion to the extent that the Republic of Armenia assumes the loans extended by Armenian banks that became non-performing after the September 2020 military conflict in a manner that ensures no further fiscal support.

- **The ceiling on domestic budgetary lending** will be adjusted upward by the amount of undisbursed funds under domestic budgetary lending programs approved in the previous year.

Continuous Structural Benchmark

17. A tax incentive is defined as a reduction in or exemption from tax liability or a provision of a tax credit, as defined in paragraph 5.29-5.32 of *the Government Finance Statistics Manual 2014*, either recorded as lower revenue or as higher expenditure in the budget, and either legislated as an amendment to the tax code and to other laws or provided in any form of government decision. A tax incentive is provided to specific companies, activities, or sectors. During the period of the Stand-by Arrangement, new tax incentives will be introduced only in exceptional and rare cases after providing the following: (i) an assessment of the net revenue implications of the tax incentives; (ii) a written justification that the use of tax incentives aims at addressing a market failure; (iii) a sunset clause; and (iv) a set of equivalent compensatory tax policy measures if necessary to prevent any estimated loss of revenue. To ensure revenue neutrality, verifiable assessments of the revenue implications of both the tax incentives and the compensatory measures will be provided to IMF staff and will include information as described in Table 1. Upon agreement on the revenue/expenditure implication assessments between staff and the Ministry of Finance, the tax incentives and the compensatory policy measures will be submitted for simultaneous parliamentary/government approval and implemented together.

Data Reporting

18. The government and the CBA will provide the IMF the information specified in the following table:

Table 1. Armenia: Data Reporting Requirements

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
CBA	CBA balance sheet	Summary	Daily	The following working day
	CBA balance sheet	Summary at program exchange rates; and by chart of accounts at actual official exchange rates	Monthly	Within 25 days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank at both program exchange rates and by chart of accounts at actual official exchange rates; the consolidated balance sheet of commercial banks by chart of accounts at actual official exchange rates	Monthly	Within 25 days of the end of each month
	International reserves	By chart of accounts; at (i) program exchange rates; and (ii) at actual official exchange rates	Daily	The following working day
	Foreign exchange market	CBA foreign exchange operations, (exchange rate, volume)	Daily	Within 1 day

Table 1. Armenia: Data Reporting Requirements (Continued)				
	Interbank money market	Daily interbank repo volume and interest rate and number of trades	Daily	Within 1 day
	CBA operations	Repo (reverse repo) operations, open market operations, Lombard credits, deposit facility, and foreign exchange swaps (volumes, maturity, yields, exchange rates)	Daily	Within 1 day
	Bank liquidity	Reserves and excess reserves, by currency	Monthly	Within 15 days of the end of each reference period
	Interest rates and flows of the funds attracted and allocated by commercial banks	By currency and maturity	Weekly	First working day of the next week
	T-bill and coupon bond financing, CBA securities	Auction data: date, original and remaining maturities, issuance volume, allocation, average yield and coupon yield (if available)	Monthly	First working day of the next month
	Banking data	loan maturities;	Monthly	Within 25 days of the end of each month
	Banking indicators	Capital adequacy; asset composition and quality; profitability; liquidity; open FX positions; and compliance with prudential norms	Monthly	Within 30 days of the end of each month
	Banking sector stress tests	Results of stress tests on exchange rate, liquidity, and credit risk	Monthly	Within 30 days of the end of each month
	On-lending via commercial banks	On lending via the CBA and government (from, KfW, WB, ADB, etc.) by type of on-lending projects (including loan disbursements and repayments)	Monthly	Within 10 days of the end of each month.

Table 1. Armenia: Data Reporting Requirements (Continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	CPI	Index of core inflation	Monthly	Within 21 days of the end of each month
	Transfers	Non-commercial transfers of individuals	Monthly	Within 35 of the end of each month
	Other monetary data	IFS format	Monthly	Within 45 days of the end of each month
	T-bill and coupon bond financing	By holders, i.e., CBA, resident banks, resident nonbanks, and nonresidents	Monthly	Within 7 days of each month
CBA and Ministry of Finance	External debt	Disbursements, amortization, and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the CBA, and state-owned companies (by company); any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears. Information about disbursements, amortization, and the stock of outstanding short-, medium-, and long-term debt should include disaggregation by instrument, purpose, and lender.	Monthly	Within 21 days of the end of each month. For project implementation units, within 21 days of the end of each month (preliminary data) and within 45 days of the end of each month (final data)

Table 1. Armenia: Data Reporting Requirements (Continued)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
Ministry of Finance	Revenue collection	Total revenue collected separately by the tax administration and customs administration, including revenue by individual tax, license fee for export of minerals, social contributions and army servicemen insurance fund contributions.	Monthly	Within 7 days of the end of each month
	Treasury single account (TSA)	Detailed breakdown of central treasury account, including deposits at the central treasury, Special Privatization Account, off budget account, monetization account, state budget account and the Republic correspondent account—flows during the month and end of month stocks.	Monthly	Within 7 days of the end of each month
	Consolidated central government	State budget	Monthly	Within 30 days of the end of each month
	Consolidated general government	Central and local governments, and Non-Commercial Enterprises that belong within the general government (NCEs)	Quarterly	Within 60 days of the end of each quarter
	Consolidated general government	Central and local governments, and NCEs that belong within the general government	Annual	Within 180 days of the end of each year
	Budget execution	All cash receipts, cash expenditures, including domestic and external debt-service payments, external and domestic borrowing and lending operations, and inflow of grants to the central government; expenditure data will be provided according to both economic and functional classifications, consistent with the GFSM2001 methodology	Monthly	Within one month following the end of each month.

Table 1. Armenia: Data Reporting Requirements (Continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	Tax Incentives	For new tax incentives, the type of tax affected (CIT, PIT, VAT, customs duty, etc.); detailed description of tax incentives, including their role in addressing market failures; expected economic, social, and environmental impact from proposed tax incentives; validity term of tax incentives; and assessment of the revenue forgone (short- and medium-term) and/or expenditure increase. For compensatory tax measures, the type of tax affected (CIT, PIT, VAT, customs duty, etc.); detailed description of the new tax policy measures and assessment of the revenue gain (short- and medium- term).	Ongoing	-
National Statistical Service	Trade Statistics	Detailed export and import data	Monthly	Within 28 days of the end of each month
	Balance of payments	Detailed BOP data	Quarterly	Within 45 days of the end of each quarter
	CPI	By category	Monthly	Within 21 days of the end of each month
State Revenue Committee	Tax arrears	By type of tax	Monthly	Within 30 days of the end of each quarter (monthly data provided on a quarterly basis)
	Large taxpayers	Data on the number of taxpayers and amount of taxes collected from taxpayers included in the list for special control approved annually by the chairman of SRC	Monthly	Within 45 days after the end of each month

Table 1. Armenia: Data Reporting Requirements (Concluded)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	Risk-based selection	Percentage of selected companies chosen on the basis of risk-based approach, and identified additional revenue to be collected from risk-based audits	Monthly	Within 45 days of the end of each quarter (monthly data provided on a quarterly basis)
	Pension system	Number of participants in the pension second pillar, social payments and funded contributions	Monthly	Within two months of the end of each quarter (monthly data provided on a quarterly basis)

Table 2. Armenia: (Program) Exchange Rates of the CBA
(As of September 30, 2022, in U.S. dollars per currency rates)

		USD 1/	AMD 2/
AMD	Armenian Dram	0.002	1.00
XDR	SDR	1.280	519.18
USD	U.S. Dollar	1.000	405.65
CHF	Swiss Franc	1.016	412.02
GBP	Pound Sterling	1.113	451.65
JPY	Japanese Yen	0.007	2.80
EUR	EURO	0.980	397.42
CNY	Chinese Yuan	0.141	57.03
AUD	Australian Dollar	0.644	261.12
CAD	Canadian Dollar	0.727	294.98
XAU	Gold (1 gram)	53.81	21828.03

Sources: Central Bank of Armenia, Federal Reserve, Haver, and IMF staff calculations.
1/ USD cross rates.
2/ Staff calculations based on the USD cross rates specified in column 1/.

Table 3. Armenia: External Disbursements through the CBA in 2025 1/
(In millions of U.S. dollars)

	Jun-25 Proj.	Sep-25 Proj.
Budget support grants	0	0
Budget support loans	0	0
Project support grants	0	0
Project financing loans	41	75
o/w multilateral	41	75
o/w bilateral	0	0
CBA project loans	20	40
EEU transfers	0	0
Privatization proceeds	0	0
Amortization	-116	-191

1/ Cumulative during the program review.