RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
General			
The country is still vulnerable to external shocks, which may directly affect financial stability and spur increases in dollarization.	Substantial	The mitigation of external risks remains a government priority. Resilience will be strengthened by implementing reforms such as those in the Second Public Efficient and Financial Markets Program, and by sustaining efforts to increase the depth of the government's domestic debt while reducing foreign exchange borrowing.	MOF
Fiscal instability and foreign currency debt servicing concerns can affect the stability of the domestic debt issuance program.	Substantial	The government continues to reduce the fiscal deficit. A new tax code introduced in late 2016 is broadening the tax base and increasing revenues, and this expected to continue in view of recently enacted formalization reforms. This can reduce risks of fiscal instability. The new government has stepped up plans to strengthen the issuance of more dram debt to reduce foreign currency risk exposures earlier than otherwise. Reforms under the program are expected to strengthen public debt management.	MOF
Future government changes could trigger policy reversals and affect the sustainability of program achievements.	Low	Reforms supported under the Program are nonideological and do not include partisan issues. Government solutions supported by the different political forces of Armenia stand to gain from the institutional achievements in public debt management, fiscal risk management, and financial market development that ADB assistance has been supporting. Technocratic forces and financial system stakeholders are generally an anchor of policy stability in Armenia. Recent political transitions demonstrate this stability of policy reform objectives.	MOF and Central Bank of Armenia
The complex legislative and institutional changes promoted under the program strain Armenia's institutional implementation capacity.	Moderate	Most Policy Actions under the program enable subsequent action and behavior by market participants and do not all necessarily require a public sector response for which capacity challenges could be a problem. On the other hand, in important areas where that is not the case (e.g., fiscal risk management, public debt management, PPP unit functions, and the public oversight board for accounting and auditing), ADB TA and policy dialogue engagement (in coordination with other development	ADB and other international development partners

Risk Description	Rating	Mitigation Measures	Responsibility
		partners) will remain supportive of issues such as human resources development.	
Public debt management			
Insufficient market demand for increased government securities auctions.	Moderate	The government has introduced an electronic sales system to enable the purchase of government securities over the internet. This will sustainably expand the market of potential buyers to the retail spectrum. The government is also strengthening market practice reliability to encourage more buyers and to develop the liquidity of the secondary market for government securities. Likely high levels of excess balances in the banking system will continue to ensure oversubscribed auctions in the near future.	MOF
PDMD capacity constraints may adversely affect the effectiveness of the reforms.	Moderate	ADB TA will continue to provide support to the PDMD to implement the changes and give specific training to upgrade staff skills.	MOF, with support from ADB
Fiscal risks and PPPs			
The tight fiscal situation and limited capital expenditure could increase pressure to enter into PPP arrangements without a proper policy and legal framework, which could impose significant fiscal costs in later years.	Moderate	The government has introduced standard methodologies, including guidelines and/or manuals, to undertake (i) the identification, vetting, and preparation of PPPs based on risk profiling, fiscal affordability, and financial viability; (ii) monitoring of the performance of each PPP; and (iii) sector-specific public sector comparator benchmarks. The Law of the Republic of Armenia on Public Private Partnerships of 2019 has ruled out unsolicited proposals (a major source of renegotiation pressures) and has strengthened the public sector’s position in PPP negotiations. ADB’s engagement will continue to include this focus in the policy dialogue with the authorities.	MOF, with support from ADB, IMF, World Bank, and European Bank for Reconstruction and Development
MOF resistance to take on an expansion of its framework to monitor fiscal risks because of capacity concerns.	Low	The MOF created a new department to focus on fiscal risks. The IMF has provided extensive TA to develop the existing fiscal risk framework and capacity. The IMF and other development partners (including ADB) have urged the government to do more to manage fiscal risks. TA resources from development partners will continue to support this expanded scope.	MOF

Risk Description	Rating	Mitigation Measures	Responsibility
Corporate transparency			
Vested interests may make it difficult for policy and legal changes to be made, to increase corporate transparency.	Moderate	Low corporate transparency is having an impact on investment. Foreign investors with limited knowledge of the Armenian corporate market find it difficult to obtain comprehensive information on company performance in the public domain. The government recognizes this and is committed to ensure that ongoing policy and legislative changes, as part of a general policy change to increase the attractiveness of Armenia as an investment destination, are sustained. TA resources from several development partners also support the government in increasing corporate transparency, with a view to expanding the tax revenue base.	MOF

ADB = Asian Development Bank, IMF = International Monetary Fund, MOF = Ministry of Finance, PDMD = Public Debt Management Department, PPP = public–private partnership, TA = technical assistance.
Source: Asian Development Bank.