

INTERNATIONAL MONETARY FUND ASSESSMENT LETTER

IMF Executive Board Concludes 2017 Article IV Consultation and Completes Fifth and Final Review of Armenia's Extended Arrangement

June 23, 2017

- Armenia's authorities remain committed to maintaining a prudent medium-term fiscal path by enhancing revenue mobilization and increasing efficiency in spending.
- Economic activity is expected to pick up in 2017 and over the medium term though downside risks and significant structural challenges remain.
- Strengthening domestic competition and regulatory reforms are pivotal to promoting private sector development and diversifying the economy.

The Executive Board of the International Monetary Fund (IMF) completed today the fifth and final review of Armenia's economic performance under a three-year arrangement under the Extended Fund Facility (EFF). The completion of the review allows the authorities to draw the equivalent of SDR 15.69 million (about US\$21.6 million). Armenia's three-year extended arrangement for SDR 82.21 million (about US\$111.57 million at the time of approval of the arrangement) was approved on March 7, 2014 ([See Press Release No. 14/88](#)).

The Executive Board today also concluded the 2017 Article IV Consultation with Armenia. A respective press release will be issued separately.

Following the Executive Board discussion on Armenia, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, said:

"Armenia has been facing challenging external conditions which have contributed to subdued domestic demand, weak fiscal revenues, and deflationary conditions. Nonetheless, program performance has been satisfactory. All end-December 2016 quantitative performance criteria, indicative targets, and structural benchmarks were met. Economic activity is expected to pick up in 2017 and over the medium term, however, downside risks and significant structural challenges remain.

“Given the fragile growth, the cyclical position of the economy, and a projected revenue overperformance, an increase in growth-friendly foreign-financed capital spending relative to the 2017 budget is justified. At the same time, the authorities remain committed to maintaining a prudent medium-term fiscal path by enhancing revenue mobilization and increasing efficiency in spending. The new Tax Code should be rigorously implemented by resisting pressures to water down its provisions. It is also essential to modernize the medium-term fiscal framework, given that the current fiscal rule lacks flexibility and consideration for cyclical conditions.

“The central bank’s monetary policy easing over the past two years has helped reduce market interest rates and supported a nascent recovery in bank lending. Going forward, monetary policy should remain focused on bringing inflation back to its medium-term target. The central bank should monitor the impact of recent policy actions and assess the need for further easing. Also, the flexible exchange rate should continue to act as a shock absorber, helping support external adjustment and maintain policy buffers.

“Pursuing structural reforms remains essential for fostering sustainable and inclusive growth. Strengthening domestic competition and regulatory reforms are pivotal to promoting private sector development and diversifying the economy. In this context, the authorities’ growth-promoting initiatives are welcome.”

Table 1. Armenia: Selected Economic and Financial Indicators, 2014–19

	2014	2015	2016		2017	2018	2019	
	Act.	Act.	CR 16/380 1/	Prel.	CR 16/380 1/	Proj.	Proj.	
National income and prices:								
Real GDP (percent change)	3.6	3.2	2.4	0.2	2.7	2.9	2.9	3.0
Gross domestic product (in billions of drams) 2/	4,829	5,044	5,151	5,076	5,405	5,362	5,710	6,117
Gross domestic product per capita (in U.S. dollars)	3,889	3,529	3,568	3,533	3,626	3,668	3,829	4,021

CPI (period average; percent change)	3.0	3.7	-1.4	-1.4	1.6	1.7	3.5	4.0
CPI (end of period; percent change)	4.6	-0.1	-0.5	-1.1	2.8	1.8	4.0	4.0
GDP deflator (percent change) 2/	2.3	1.2	0.0	0.5	2.2	2.6	3.5	4.0
Money and credit (end of period)								
Reserve money (percent change)	-0.1	3.9	4.9	13.1	8.8	3.0	11.3	8.0
Broad money (percent change)	8.9	10.7	13.9	16.6	10.5	8.4	10.3	8.0
Central government operations (in percent of GDP)								
Revenue and grants (in percent of GDP)	21.7	20.9	21.2	20.8	21.8	21.9	21.9	22.7
<i>Of which</i> : tax revenue (in percent of GDP)	8.3	7.5	19.5	6.7	20.2	7.2	7.2	7.9
Expenditure (in percent of GDP)	21.7	23.4	27.1	23.8	24.6	23.0	22.4	22.1
Overall balance on a cash basis (in percent of GDP)	-2.1	-4.8	-5.9	-5.6	-2.8	-3.3	-2.7	-1.7
Public and publicly-guaranteed debt (in percent of GDP)	43.6	48.7	54.7	55.1	56.4	55.7	57.0	56.4
Share of foreign currency debt (in percent)	86.2	86.9	85.5	84.4	85.0	87.1	88.0	87.7
External sector								
Exports of goods and services (in millions of U.S. dollars)	3,319	3,137	3,384	3,501	3,585	3,870	4,128	4,370

Imports of goods and services (in millions of U.S. dollars)	-5,487	-4,418	-4,327	-4,569	-4,672	-5,083	-5,273	-5,506
Exports of goods and services (percent change)	5.2	-5.5	7.9	11.6	5.9	10.6	6.7	5.9
Imports of goods and services (percent change)	0.2	-19.5	-2.0	3.4	8.0	11.2	3.8	4.4
Current account balance (in percent of GDP)	-7.6	-2.6	-2.9	-2.7	-4.0	-3.8	-3.2	-3.0
Debt service ratio (in percent of exports of G&S) 3/	8.6	12.5	7.2	6.6	8.1	7.3	7.5	7.8
Gross international reserves (in millions of U.S. dollars)	1,489	1,771	1,953	2,204	1,981	2,259	2,458	2,755
Import cover 4/	4.0	4.7	5.0	5.2	5.0	5.2	5.4	5.8
End-of-period exchange rate (dram per U.S. dollar)	475	484	...	484
Average exchange rate (dram per U.S. dollar)	416	478	...	480

Sources: Armenian authorities; and Fund staff estimates and projections

1/ Staff Report for the fourth review.

2/ In 2015 the authorities started calculating GDP using the SNA 2008 methodology. They have revised GDP series from 2012 on.

3/ Based on public and publicly-guaranteed debt.

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

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