INTERNATIONAL MONETARY FUND

Staff Country Reports

November 1996

IMF Staff Country Report No. 96/118

Republic of Armenia—Recent Economic Developments and Selected Issues

This report on recent economic developments and selected issues in the Republic of Armenia was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of the Republic of Armenia or the Executive Board of the IMF.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431

Telephone: (202) 623-7430 • Telefax: (202) 623-7201

Telex (RCA): 248331 IMF UR

Internet: publications@imf.org

Price: \$15.00 a copy

**International Monetary Fund
Washington, D.C.**

This page intentionally left blank

INTERNATIONAL MONETARY FUND

REPUBLIC OF ARMENIA

**Recent Economic Developments and
Selected Issues**

**Prepared by a staff team consisting of Thanos Catsambas (head)
Nita Thacker, and Balazs Horvath (all EU2),
Paulo Drummond (PDR), and Jiming Ha (FAD)**

Approved by the European II Department

September 5, 1996

	Contents	Page
I.	Introduction	5
II.	Developments in 1995-96	6
	A. Overall Trends	6
	B. Sectoral Developments: Supply Response	7
	C. Infrastructure	9
	D. Structural Reforms	11
	E. Legal Reforms	12
	F. Environmental Issues	13
III.	Fiscal Developments	13
	A. Intergovernmental Fiscal Relations	13
	B. Overview	13
	C. Revenues	16
	D. Expenditures	19
IV.	Monetary Policy and Financial Sector Developments	22
	A. Overview	22
	B. Developments in Monetary Aggregates	22
	C. Tools of Monetary Policy	25
	D. Interest Rates	27
	E. Banking System Developments	27
	F. The Payment System	28

V.	External Sector Developments	28
A.	Overview	28
B.	Balance of Payments	29
C.	Commodity Composition of Trade	32
D.	Services and Transfers	32
E.	Capital Account	33
F.	External Debt and Outstanding Balances	34
G.	Official Reserves	34
H.	Exchange Rate Regime and Developments	35
I.	Trade Policy	35
VI.	Analytical Aspects	36
A.	The Stance of Monetary Policy	36
B.	Seignorage and Inflation Tax	39
C.	Dollarization and Reverse Currency Substitution	41

Tables

1.	GDP, Inflation and Wages	6
2.	Total Electricity Generation, Distribution and Collection	9
3.	Consolidated State Government Operations (in million drams)	14
4.	Consolidated State Government Operations (in percent of GDP)	15
5.	Distribution of Tax Revenues	18
6.	Distribution of Current Expenditure	20
7.	Accounts of the Central Bank	23
8.	Monetary Survey	24
9.	Balance of Payments and External Financing	30
10.	Direction of Trade	31
11.	Monetary Impulse Measures	38
12.	Seignorage and Inflation Tax	41

Charts

1.	Growth and Sectoral Distribution of Real GDP	6a
2.	Inflation, Food Prices, and Broad Money	8a
3.	State Sector Wages	8b
4.	Privatization of Small- and Medium- and Large-Scale Enterprises	12a
5.	Public Finance	16a
6.	Composition of Tax Revenues	20a
7.	Composition of Current Expenditures	20b
8.	Selected Monetary Indicators	24a
9.	Outstanding Stock and Average Yield on T-Bills	26a
10.	Current Account Balance, Debt and Debt Service	30a
11.	Commodity Composition of Exports and Imports	32a

12.	Monetary Impulse Measures	38a
13.	Seignorage and Inflation Tax in Percent of GDP	40a
14.	Foreign Currency Deposit, Broad Money, Inflation, and Exchange Rate	42a

Appendices

I.	Tables	44
II.	Summary of Tax System	65
III.	Armenia and the WTO	72
IV.	WTO: Special and Differential Treatment for Developing and Transition Countries	74
V.	List of Trade Agreements with Third Countries	75

Armenia: Basic Data, 1993-96

I. Social and demographic indicators

Area	29,800 sq. km.
Population density	126.2 per sq. km.
Population	3.762 million
Rate of population growth	0.54 percent
Life expectancy at birth	73 years
Infant mortality rate	20.2 per thousand
Hospital beds (per 10,000 people)	92
GDP 1996 (Projected)	US\$1,647 million
GDP per capita 1996 (Projected)	US\$438

II. Economic indicators

	1993	1994	1995	1996 (Proj.)
	(Annual percent change)			
Output and prices				
GDP at constant prices	-14.8	5.4	6.9	6.5
Consumer price index	10,896	1,884.5	31.9	18.0
Monetary and credit aggregates				
Banking system domestic credit (end-of-period)	751.7	1,548.2	46	64
Consolidated govt. operations ¹	1,920.4	451.2	28	160
State enterprises	207.4	4,936.3	68	--
Households	392.2	2,480.0	534	--
Banking deposits of enterprises and households	1,405.7	581.6	92	--
	(In millions of U.S. dollars, unless otherwise specified)			
External accounts				
Trade balance	-147.9	-191.9	-402.0	-472.5
Gross official international reserves (convertible currencies, end of period)	4.9	32.3	107.1	132.7
External debt outstanding (end of period)	127.4	200.2	371.0	576.9
Debt service (as a percent of exports)	0.8	3.0	20.6	20.2
	(In percent of GDP)			
Consolidated government operations ¹				
Total revenue and grants	20.4	27.6	19.9	14.7
Total expenditure	68.6	44.1	29.8	23.2
Overall deficit (accrual)	48.2	16.4	9.9	8.6
Overall deficit (cash)	46.4	10.1	11.1	9.3

Sources: Data provided by the Armenian authorities; and Fund staff estimates.

¹Includes operations of the state government and the Pension and Employment Fund.

I. Introduction

1. **Armenia is a small mountainous country situated in the southern part of the Caucasus and covering approximately 30,000 square kilometers. The neighboring countries are: Turkey to the west, Georgia to the north, Azerbaijan to the east and southwest, and the Islamic Republic of Iran to the southeast. On September 21, 1991 Armenians almost unanimously voted for independence from the Soviet Union. Since then Armenia has faced several political and economic challenges, but its 3.7 million people have successfully overcome the political and economic hurdles to make Armenia one of the few countries among the countries of the former U.S.S.R. to report economic growth in 1994. This trend has continued in 1995 and in the first six months of 1996.**
2. **On the political front, a ceasefire has held in the Nagorno-Karabakh region since mid-1994 and efforts continue, with the assistance of the U.S. and Russia, to reach a permanent peace settlement. On the economic front, the Government has undertaken widespread reforms to restructure the economy to allow market forces a greater role in allocating resources more efficiently. However, the economic blockade imposed by Azerbaijan and Turkey continues to place a heavy burden on the economy both in terms of high transport costs and the limited availability of goods including essential raw materials for industry.**

Background

3. **As with some of the other countries in the region, the economic situation in Armenia deteriorated sharply after independence. First, the collapse of regional trade and payments agreements with other countries of the former U.S.S.R. and the resulting terms of trade shock dealt a severe blow to the economy. Second, the conflict in the Nagorno-Karabakh as well as other regional conflicts imposed serious obstacles to trade routes. Third, the task of dismantling the central planning system and replacing it with a market economy proved more difficult than anticipated. As a result, there was a dramatic decline in output accompanied by hyperinflation and falling real wages, causing hardships to the population despite the Government's efforts to maintain a social safety net.**
4. **The year 1994 marked a watershed in Armenia's economy. Following an agreement formalizing a ceasefire between Azerbaijan, Nagorno-Karabakh and Armenia, the Armenian Government turned to the international community to seek assistance for the reconstruction of its shattered economy. Supported by resources under the IMF's Systemic Transformation Facility beginning in December 1994, and a Rehabilitation Credit from the World Bank in February 1995, the authorities began to implement austere fiscal and monetary policies accompanied with widespread structural reforms to achieve sustained price stability and economic growth. As a result of these policies, inflation slowed to 1,885 percent in 1994 (on an end-period basis) compared with over 10,000 percent in 1993. The economy began to stabilize and real GDP increased by 5.4 percent in 1994.**

II. Developments in 1995-96

A. Overall Trends

Output

5. Stabilization and economic growth continued in 1995 and 1996. Official estimates indicate that real GDP increased by 6.9 percent in 1995 and by 4.3 percent during the first six months of 1996 compared with the same period of the preceding year (Table 1). The trade sector grew by 75 percent in 1995 and 18.5 percent during the first six months of 1996, increasing its share in GDP from 4 percent in 1994 to 9 percent in 1996 (Chart 1). Growth in the agricultural sector at 5.4 percent in 1995 was well over the 3.4 percent registered in 1994. During the first six months of 1996, agricultural output increased by 4.2 percent compared to the corresponding period last year. However, growth in the industrial sector was disappointing at only 2.4 percent in 1995 and 1.8 percent during the first six months of 1996, although certain industries, like metallurgy and chemicals, grew more rapidly.

Table 1. Armenia: GDP, Inflation and Wages			
	1994	1995	<u>1996</u> Jan.-June
Nominal GDP (mln US\$) ¹	653	1,286	535
Real GDP (in percent) ²	5.4	6.9	4.3
End-period inflation (in percent)	1,885	31.9	5.6
Wages (in US\$)			
Minimum monthly wage	1	2	2
Average monthly state sector wages	7	15	20

Source: Armenian authorities; and Fund staff estimates.

¹GDP as reported by State Department of Statistics, seasonally unadjusted.

²Over same period in previous year.

Inflation

6. Inflation, as measured by the increase in the consumer price index (CPI), has declined dramatically in the past 18 months; end-period inflation declined from 1,885 percent in 1994 to 31.9 percent in 1995, and to only 5.6 percent in the first six months of 1996. While Armenia has been successful in achieving a monthly inflation rate of below 1 percent so far in 1996, this trend is not expected to continue because the decline in food prices, which carry almost 66 percent of the weight in the CPI, was mainly due to seasonal factors (Appendix I

CHART 1
ARMENIA
GROWTH AND SECTORAL DISTRIBUTION OF REAL GDP

Growth of Real GDP
(In percent)

Source: Armenian authorities.

1/ Compared with the same period of 1995.

Table 2, and Chart 2). However, the overall decline in inflation reflects a slowdown in monetary aggregates under the authorities' reform program.

Wages

7. As experienced in most countries of the former U.S.S.R., real wages in Armenia plummeted between 1992-94, falling by 42 percent in 1993 and an additional 76 percent in 1994. However, state sector real wages began to recover in 1995, increasing by 18 percent by year end (Chart 3). Recent efforts at downsizing the Government have been accompanied by wage increases in the budgetary sector which, coupled with abating inflation, resulted in a 29 percent increase in average monthly real wages by July 1996, compared with December 1995. Wages vary considerably among sectors in the economy and the disparity appears to be increasing. Wages in the finance and insurance sector are the highest, but employees in the construction sector seemed to have enjoyed the biggest wage increase between 1994 and 1995 (Appendix I Table 3).

Employment

8. Official employment and unemployment figures continue to mask the true extent of changes in the Armenian labor market. The State Department of Statistics is only now beginning to conduct surveys to determine the number of employed and unemployed persons. The current figures for employed persons are based on information received twice a year from enterprises on the number of their employees. Official estimates indicate that the state sector still employs 45 percent of the total labor force, down only marginally from the 1994 level, while private sector employment has also remained fairly constant at 55 percent of the labor force (Appendix I Table 4). However, employment in the budgetary sector is declining, falling from 407,000 in 1994 to 380,000 by end-1995 and to 357,000 by end-June 1996, with most reductions occurring in the health and education sectors (Appendix I Table 5). This was partly due to a redesignation of hospitals to state-owned enterprises independent of the budget, as hospitals began to provide services on a fee-for-service basis.

B. Sectoral Developments: Supply Response

9. Since the breakup of the Soviet Union, sectoral developments in Armenia have been largely shaped by the limited availability of essential raw materials and the extent of structural reforms undertaken in the industrial and agricultural sectors. Unlike the Soviet era, when most raw materials for industry and most agricultural goods were imported from other Soviet republics, Armenia has had to rely on domestic production and on humanitarian aid.

Agriculture

10. Armenia does not have a comparative advantage in the production of agricultural goods. Nevertheless, this sector has grown steadily and its share in GDP has increased from 23 percent of GDP in 1990 to nearly 43 percent in 1995, reflecting a supply response to the changing economic circumstances. The continuation of the blockade made it both difficult and

expensive to import food, while the early privatization of agricultural land enabled this sector to respond to the domestic market demand for basic food items.¹ Although Armenia continues to depend on food imports and humanitarian assistance, the production of grains and vegetables has increased, and grain-based industries, like bread bakeries and pasta plants, operate at close to 60-80 percent of capacity. However, production of grapes has decreased dramatically, reflecting the decline in wine-based agroprocessing as a result of the inability of wine producers to compete in traditional or in western markets, given the poor technology currently used for wine production.² In 1995 wine and brandy production made up only 17 percent of the total production of this sector, as compared to 50 percent in the 1980s.

11. The Agricultural Cooperative Bank of Armenia was opened in January 1996 with technical assistance under the EU/TACIS program, and is the first of its kind. The objective of this bank is to lend small amounts of working capital to farmers to buy better quality seeds, fertilizers, and equipment to help increase productivity.

Industry

12. Industrial production has also undergone a significant change in response to the drastic shift in the terms of trade and the inability to obtain energy and raw materials from traditional sources. Industries like jewelry production and light industry including textiles, which are energy efficient and whose output is easy to transport, have increased production, while production of traditional industries like rubber and chemicals has lagged behind. Beginning in 1994, as energy supply improved industrial output rebounded, but it grew only by 2.4 percent in 1995 and by 1.8 percent during the first half of 1996, reflecting partly the high cost of imported raw materials and energy. Restructuring of the industrial sector is still at an early stage. Much of the sector is characterized by obsolete technology and redundant machinery, and the shortage of working capital and the difficulty of exporting to traditional markets have added to the problems of this sector. Meanwhile, the dismantling of clearing trade arrangements during the past one and a half years has raised the urgency of producing high-quality, competitive goods.

¹In 1991, soon after independence, the Armenian Government undertook an ambitious program of land reform and privatized most of the land under agriculture. Currently there are 313,000 private farms producing 95 percent of the agricultural output.

²The Ministry of Food and Agriculture is currently trying to develop wine production with the help of technical assistance from the European Union (EU). The 1996 privatization program includes privatization of the cognac factory and also several agroprocessing plants including vegetable canning and mineral water plants.

CHART 2
ARMENIA
INFLATION, FOOD PRICES, AND BROAD MONEY
(Percent change over previous period)

Source: Armenian authorities.

CHART 3
ARMENIA
STATE SECTOR WAGES

Source: Armenian authorities; and Fund staff estimates.

C. Infrastructure

Energy

13. Electricity generation improved significantly in 1995-96, increasing by almost 20 percent in the first half of 1996 over the first half of 1995, mainly because of the recommissioning of the Metzamor nuclear power plant in November 1995. In 1995, the total amount of electricity produced was 5.6 billion kWh, of which 34 percent came from hydropower plants, 6 percent from the nuclear power plant, and 60 percent from thermal power plants mainly using imported gas. By contrast, in the first half of 1996, only 30 percent of the electricity came from thermal power plants, 26 percent from hydropower plant, and almost 45 percent from the nuclear plant (Table 2). As dependence on gas imports for the

Table 2. Armenia: Total Electricity Generation, Distribution and Collection Rates of payments			
	1994	1995	<u>1996</u> Jan-June
Production of electric energy (in mln kWh)			
Thermal	5,568	5,561	3,126
Hydro	2,144	3,338	928
Nuclear ¹	3,514	1,919	803
	0	304	1,395
Production of electric energy (in percent of total)			
Thermal	38	60	30
Hydro	62	35	26
Nuclear	0	5	45
Distribution (in percent of total)			
Population	77	46	48
Enterprises	54	52	45
Other (unmetered)	1	3	7
Collection rate of payments (in percent of total)			
Population	...	34	45
Enterprises ²	...	63	80
Average	...	50	53

Source: Armenian authorities; and the World Bank

¹The nuclear power plant was recommissioned in November 1995.

²Excludes the Nairit Chemical Companies and the two water companies.

specific purpose of electricity generation has fallen, gas imports in the first half of 1996 declined to 455 million cubic meters compared with 667 million cubic meters in the first half of 1995, with about 20 percent of gas imports being supplied to industry.

14. The energy sector has undergone significant structural changes during 1996. The intergovernment clearing trade agreement with Turkmenistan under which gas was being imported was eliminated as of January 1, 1996. At the same time, Armgazprom was appointed the sole state enterprise with the authority to import gas, strictly on commercial terms, so that it can only import as much gas as it can pay for. In an effort to discourage payment default by consumers, the Government implemented a July 1995 decree whereby the Ministry of Energy is entitled to cut off electricity to anyone who does not pay, with the exception of budgetary enterprises and certain "essential" enterprises.³ As a result, by the second quarter of 1996 collection rates from the population reached the 55-65 percent range and payments for electricity from enterprises is estimated at over 80 percent.⁴

15. Electricity tariffs have also been increased gradually in the past year. They were increased from dram 10 per kWh in October 1995, to dram 12 per kWh in December 1995, and to dram 14 per kWh on April 1, 1996 so as to cover all operating and maintenance costs. However, the Government passed a decree whereby veterans of war and other privileged groups were to be provided electricity at a 50 percent discount. The World Bank estimates that these groups account for 25 percent of the residential consumers and about 30 percent of residential electricity consumption, implying a price subsidy of about US\$6-7 million for the first six months of 1996.⁵ The Government is considering a replacement of the exemptions with an income subsidy policy, so that individuals receive a limited cash benefit instead and pay for electricity at full price; or alternatively, the introduction of a life-line tariff up to a limited consumption level beyond which the individual must pay full price.

Transport

16. The pattern of transport has been altered in recent years by a shift in trade routes, both because of the change in trading partners as a result of the collapse of the Soviet Union and because of the economic blockade. As a result, shipping goods in and out of the country has become a formidable problem, and transport costs sometimes account for up to 80 percent of

³The Nairit Chemical Company (NCC) and the two water companies were listed as essential enterprises. By mid-1996, total arrears to the energy company accumulated by NCC alone amounted to US\$13.2 million.

⁴Excluding NCC, and the two water companies.

⁵This subsidy has largely been shouldered by Armenergo because the Government has not paid the subsidy amounts to the electricity company.

the final cost of a product. Given the paucity of resources at the disposal of the Government, it has been impossible to develop a well-functioning transport infrastructure or to properly maintain the existing one.

17. To remove bottlenecks in the transportation sector, the recently approved World Bank Highway Rehabilitation Project will aim at preventing further deterioration in the main road network and at increasing existing capacities for future routine maintenance. In addition, the EU/TACIS-financed Highway Survey has identified a number of rehabilitation projects, and the EU/TACIS-financed study for improvements to Zvartnots Airport is under way and is expected to determine the most immediate investment requirements. An EBRD-financed project to build a cargo terminal, which will increase the capacity of Zvartnots to handle air freight efficiently, is already under way and is due to be completed by 1997.

Telecommunications

18. Armenia needs large investments in developing an effective telecommunications network. A number of international telecommunication firms have shown interest in developing an effective country-wide telecommunications network. Armentel (in a joint venture arrangement with an American firm) has already started to digitalize the entire telephone system.

D. Structural Reforms

Privatization

19. By end-1995 over 1,800 small-scale and 355 medium- and large-scale enterprises were privatized. While small-scale privatization has advanced fairly smoothly, medium- and large-scale privatization came to a virtual halt between end-February to mid-April 1996 as a result of the delays caused by the restructuring of the Privatization Commission.⁶ The process picked up again in May, and by mid-August about 3,238 small-scale and 626 medium- and large-scale enterprises were privatized (Chart 4). The Government has also decided to sell ten large enterprises including the NCC and the Yerevan Cognac Factory to foreign investors with the assistance of an international investment bank. Sales of these enterprises are expected to begin in the fourth quarter of 1996 and are expected to yield substantial revenues for the budget.⁷

⁶The structure of the Privatization Commission was changed in February 1996 with a view to streamlining the process and accelerating privatization. Under the old structure there was a Privatization Commission and a Privatization Board. Under the new structure there is only a 16-member Privatization Commission.

⁷So far, most enterprises were privatized through vouchers, thus budgetary revenues from this source have been minimal.

20. All enterprises are first evaluated by a subcommittee, and then approved for sale by the Privatization Commission and presented to the Government for final approval. Once an enterprise is approved for privatization, advertisements are placed in local newspapers and subscriptions are invited. The majority of the enterprises were offered by public subscription and a few were sold by auction. There were also some employee buy-outs. If an enterprise cannot be sold in three attempts, it has to be liquidated.

21. Within sectors, privatization is almost complete in the production of agricultural goods, although their distribution and processing is still controlled by the state because most agroprocessing plants are still largely state owned. Privatization is fairly advanced in the trade sector with more than 50 percent of trade activity conducted by private entities. In the energy sector, a plan for the restructuring, corporatization, and privatization of the regional electricity distribution companies has been prepared. However, the industrial sector continues to be largely state owned. In the health sector, doctors are increasingly providing care on a fee-for-service basis. In education, several private schools have been established in the past three years, particularly in higher education.

Price liberalization

22. Price reforms began in April 1991, and since then the authorities have moved vigorously in liberalizing prices by eliminating a wide variety of subsidies and cross-subsidies so that market prices reflect their true cost of production. The last major step came in June 1995 when the price of bread was liberalized. Currently, most prices are market determined with the exception of the prices of electricity, drinking water, urban transport, telephone services, sewerage, garbage removal, hot water, gas and heating, certain pharmaceutical products and rent in state-owned housing (Appendix I Table 7). Prices for these are reviewed and increased periodically with the approval from the Ministry of Economy. As these goods and services have a combined weight of only about 8 percent in the CPI, consumers buy in a market where prices are predominantly market determined.

E. Legal Reforms

23. Armenia has taken an important step in reforming the legal environment, especially with respect to banking with the passage on June 30, 1996, of the Central Bank Law, the Law on Banks and Banking, and the Law on Bank Insolvency. The Central Bank Law established firmly the independence of the CBA in setting monetary policy, while leaving some room for ex-post parliamentary oversight of the implementation of its budget. The other two laws define the legal environment in which commercial banks operate and the procedures for dealing with insolvent banks. The Government is currently redrafting the Bankruptcy and Collateral laws to address the shortcoming of the earlier laws (passed in May 1995) to establish a sound legal framework for the growth of the private sector. With the passage of all these laws, it is expected that Armenian enterprises and banks will operate in a well-defined, transparent legal environment in 1997.

CHART 4
ARMENIA
PRIVATIZATION OF SMALL-SCALE AND MEDIUM AND LARGE SCALE
ENTERPRISES

(As of mid-August 1996)

Source: Armenian authorities; and Fund staff estimates.

F. Environmental Issues

24. Armenia has continued to make efforts to improve its environment with the assistance of the international community, particularly the World Bank. The three major areas of concern are: the low water level in Lake Sevan; soil erosion arising mainly from bad agricultural practices including poor irrigation, and water management practices; and air pollution, which is bound to increase as more factories start operating.

25. In order to address these issues at an early stage and prevent deterioration of the environment, the Government is developing an Action Plan for Lake Sevan and a broader National Environment Action Plan with the assistance of the World Bank.

III. Fiscal Developments

A. Intergovernmental Fiscal Relations

26. The structure of the Government underwent a major change at the beginning of 1996. Under the new arrangement, the number of regional authorities was reduced from 58 to 11 "marzes". The marzes are direct agents of the central government, and thus, do not have autonomous fiscal authority. The Consolidated State Budget⁸ covers the operations of the republican (central) government and the 11 marzes or regional authorities. There are about 1,000 municipalities which have the power to levy fees and rents and apply them toward local expenditures, such as improvement of local utilities; only the republican government has the authority to tax. However, the local governments receive transfers from the central government, including all the revenues collected from land taxes.

B. Overview

27. Armenia's fiscal policy has continued to be on a contractionary path during 1995 and the first half of 1996, although somewhat less so during the latter period. The consolidated state government budget deficit on an accrual basis (including grants) fell from 16.5 percent in 1994 to 9.9 percent in 1995 and to 6.8 percent in the first half of 1996. Much of this reflects cuts in expenditures, especially subsidies, which fell from 12.8 percent of GDP in 1994 to 0.9 percent of GDP in 1995 and 0.1 percent in the first half of 1996; and in goods and services where expenditures fell from 13.7 percent of GDP in 1994 to 7.3 percent of GDP in the first half of 1996 (Tables 3 and 4 and Chart 5). While collections from some major taxes improved during this period, overall tax revenues as a percent of GDP declined slightly and tax arrears stood at 2.6 percent of GDP in the second half of 1996, up by half a percentage point from end-1995. In addition, grants declined very sharply, adding to the urgency of expenditure cuts to offset this decline.

⁸The authorities' presentation of the budget differs from that contained in this report in that the authorities record most externally financed capital expenditure off-budget.

Table 3. Armenia: Consolidated State Government Operations, 1994-96 1/

	1994	1995				1996	1996		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Jan-Jun
(In millions of dram)									
Total revenue and grants	61,756	16,565	28,316	28,316	30,637	163,834	19,190	23,664	42,855
Total revenue	29,610	12,045	22,272	21,582	28,904	84,883	15,553	23,028	38,581
Tax revenue	24,431	10,970	16,124	15,628	23,735	66,457	13,529	19,187	32,716
Value-added tax	5,076	2,070	4,011	4,441	6,497	17,819	3,108	4,795	7,943
Excises	836	303	514	305	1,267	2,388	1,841	1,971	3,813
Enterprise profits tax	10,712	4,556	6,303	5,373	7,636	23,868	2,262	4,463	6,725
Personal income tax	2,375	1,249	1,754	1,600	2,223	6,826	1,492	1,878	3,370
Land tax	485	106	191	268	1,156	1,721	267	299	566
Customs duties	789	539	587	496	1,086	2,707	1,000	1,454	2,455
Payroll taxes	2,836	2,089	2,683	2,667	3,240	10,600	2,971	3,476	6,446
Other taxes 2/	1,582	58	81	299	462	900	366	592	958
Presumptive income tax	0	0	0	34	105	139	100	132	232
Property Tax	0	0	0	146	64	210	122	126	248
Nontax revenue 2/	5,179	1,075	6,148	5,954	5,169	18,346	2,024	3,841	5,865
Grants 3/	22,146	4,521	6,044	6,734	1,732	19,831	3,637	637	4,274
Total expenditure	82,578	25,386	44,445	40,956	44,706	155,492	27,272	36,734	64,087
Current expenditure	64,134	19,863	31,709	30,698	35,289	117,557	20,678	29,366	50,844
Wages	3,443	2,369	3,253	4,352	3,554	13,828	4,329	5,024	9,353
Subsidies	24,832	2,090	1,692	265	869	4,916	12	425	437
Interest	3,642	729	5,824	5,016	4,544	16,112	1,712	2,665	4,377
Domestic interest	2,156	0	4,515	4,075	3,184	11,774	1,206	1,772	2,978
External interest	1,486	729	1,309	941	1,360	4,339	505	893	1,399
Transfers	7,484	5,271	7,362	7,823	8,141	28,997	5,698	7,417	13,115
Pensions and social safety net	5,690	4,242	5,486	7,116	7,959	24,982	5,183	6,674	11,856
Payment of contingent liabilities	1,846	595	1,791	66	0	2,452	0	500	500
Other transfers	748	434	86	642	182	1,344	515	243	759
Goods and services	25,533	9,404	13,578	13,242	18,180	54,484	8,927	13,836	22,763
Health and education	3,931	1,625	3,499	2,850	4,892	12,866	1,767	1,868	3,635
Other	21,682	7,779	10,079	10,392	13,288	41,638	7,160	11,968	19,127
Capital expenditure and net lending of which net lending	18,444 531	5,523 382	12,736 317	10,258 1,276	9,417 600	37,934 2,575	6,595 538	7,368 1,259	13,963 1,797
Overall deficit (accrual) (-)	-30,823	-8,821	-16,129	-12,640	-14,069	-51,658	-8,082	-13,070	-21,152
Net change in total exp. arrears	11,900	-2,273	-5,993	-675	2,499	-6,442	-1,200	-3,632	-4,832
Overall deficit (cash) (-)	-18,923	-11,094	-22,122	-13,315	-11,570	-58,100	-9,282	-16,702	-25,984
Financing	18,923	11,094	22,122	13,315	11,570	58,100	9,282	16,702	25,984
Domestic financing	6,685	-651	-7,448	5,954	5,170	3,824	-2,241	7,401	5,160
Banking system	5,649	-662	-7,421	5,479	5,380	2,776	-2,945	5,742	2,797
Central Bank of Armenia	6,571	1,359	-7,679	4,937	3,699	2,316	-1,737	3,475	1,738
Rest of banking system	-922	-2,021	258	542	1,681	460	-1,208	2,267	1,859
Nonbank	84	11	-27	475	-210	248	117	145	262
Privatization receipts	84	11	22	5	9	48	115	84	199
Treasury bills	0	0	-49	469	-219	281	2	61	63
Gold sales to Central Bank	952	0	0	0	0	0	0	0	0
External Financing	12,238	11,745	29,571	7,362	6,400	55,878	11,523	9,300	20,823
Gross inflow	12,245	11,745	29,571	27,935	6,400	75,650	13,860	21,801	35,461
Amortization due	7	0	0	20,573	0	20,573	2,337	12,501	14,838

Sources: Armenian authorities; and Fund staff estimates.

1/ Consolidated Accounts of the Republican government, the local authorities, and the Pension and Employment Fund.

2/ For Q2 1996 includes dram 328 million and dram 326 million for the sale of embassy property to Greece and China, respectively.

3/ Grants of wheat, wheat flour and olive oil. Also includes grants from the Netherlands of \$2.9 million in the third quarter of 1996.

Table 4. Armenia: Consolidated State Government Operations, 1994-96 1/

	1994	1995				1995	1996		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Jan-Jan
(In percent of GDP)									
Total revenue and grants	27.7	13.6	23.1	21.8	20.8	19.9	12.6	15.0	13.8
Total revenues	15.8	9.9	18.1	16.6	19.6	16.2	10.2	14.6	12.4
Tax revenues	13.1	9.0	13.1	12.0	16.1	12.7	8.9	12.2	10.5
Value-added tax	2.7	1.7	3.3	3.4	4.4	3.3	2.0	3.0	2.5
Excises	0.4	0.2	0.4	0.2	0.9	0.5	1.2	1.3	1.2
Enterprise profits tax	5.7	3.7	5.1	4.1	5.2	4.6	1.5	2.8	2.2
Personal income tax	1.2	1.0	1.4	1.2	1.5	1.3	1.0	1.2	1.1
Land tax	0.2	0.1	0.2	0.2	0.8	0.3	0.2	0.2	0.2
Customs duties	0.4	0.4	0.5	0.4	0.7	0.5	0.7	0.9	0.8
Payroll taxes	1.5	1.7	2.2	2.1	2.2	2.0	1.9	2.2	2.1
Other taxes 2/	0.8	0.0	0.1	0.2	0.3	0.2	0.2	0.4	0.3
Presumptive income tax	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
Property tax	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.1
Nontax revenue 2/	2.8	0.9	5.0	4.6	3.5	3.5	1.3	2.4	1.9
Grants 3/	11.8	3.7	4.9	5.2	1.2	3.6	2.4	0.4	1.4
Total expenditure	44.1	20.8	36.2	31.5	30.4	29.8	17.9	23.3	20.6
Current expenditure	34.3	16.3	25.8	23.6	24.0	22.5	13.5	18.6	16.1
Wages	1.8	1.9	2.7	3.3	2.4	2.6	2.8	3.2	3.0
Subsidies	12.8	1.7	1.4	0.2	0.6	0.9	0.0	0.3	0.1
Interest	1.9	0.6	4.7	3.9	3.1	3.1	1.1	1.7	1.4
Domestic interest	1.2	0.0	3.7	3.1	2.2	2.3	0.8	1.1	1.0
External interest	0.8	0.6	1.1	0.7	0.9	0.8	0.3	0.6	0.5
Transfers	4.8	4.3	6.0	6.0	5.5	5.5	3.7	4.7	4.2
Pensions and social safety net	3.0	3.5	4.5	5.5	5.4	4.7	3.4	4.2	3.8
Payment of contingent liabilities	0.6	0.5	1.5	0.1	0.0	0.5	0.0	0.3	0.2
Other transfers	0.4	0.4	0.1	0.5	0.1	0.3	0.3	0.2	0.2
Goods and services	13.7	7.7	11.1	10.2	12.3	10.4	5.8	8.8	7.3
Health and education	2.1	1.3	2.9	2.2	3.3	2.5	1.2	1.2	1.2
Other	11.5	6.4	8.2	8.0	9.0	8.0	4.7	7.6	6.2
Capital expenditure and net lending	9.9	4.5	10.4	7.9	6.4	7.3	4.3	4.7	4.5
of which: net lending	0.3	0.3	0.3	1.0	0.4	0.5	0.4	0.8	0.6
Overall deficit (surplus) (-)	-16.5	-7.2	-13.1	-9.7	-9.6	-9.9	-5.3	-8.3	-6.8
Net change in total exp. arrears	6.4	-1.9	-4.9	-0.5	1.7	-1.2	-0.8	-2.3	-1.6
Overall deficit (cash) (-)	-10.1	-9.1	-18.0	-10.2	-7.9	-11.1	-6.1	-10.6	-8.4
Financing	10.1	9.1	18.0	10.2	7.9	11.1	6.1	10.6	8.4
Domestic financing	3.6	-0.5	-6.1	4.6	3.5	0.6	-1.5	4.7	1.7
Banking system	3.0	-0.5	-6.0	4.2	3.7	0.5	-1.9	3.6	0.9
Central Bank of Armenia	3.5	1.1	-6.3	3.8	2.5	0.4	-1.1	2.2	0.6
Rest of banking system	-0.5	-1.7	0.2	0.4	1.1	0.1	-0.8	1.4	0.3
Nonbank	0.0	0.0	0.0	0.4	-0.1	0.0	0.1	0.1	0.1
Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Treasury bills	0.0	0.0	0.0	0.4	-0.1	0.0	0.0	0.0	0.0
Gold Sales to Central Bank	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External Financing	6.5	9.6	24.1	5.7	4.3	10.5	7.5	5.9	6.7
Gross inflow	6.5	9.6	24.1	21.5	4.3	14.5	9.1	13.8	11.5
Amortization due	0.0	0.0	0.0	15.8	0.0	3.9	1.5	7.9	4.8
Memorandum item:									
GDP (millions of dram)	187,849	122,215	122,737	130,049	147,284	522,284	152,770	157,523	310,293

Sources: Armenian authorities; and Fund staff calculations.

1/ Consolidated Accounts of the Republican government, the local authorities, and the Pension and Employment Fund.

2/ For Q2 1996 includes dram 328 million and dram 326 million for the sale of embassy property to Greece and China, respectively.

3/ Grants of wheat, wheat flour and olive oil. Also includes grants from the Netherlands of \$2.9 million in the third quarter of 1996.

28. The external financing of the deficit increased from 6.5 percent of GDP in 1994 to 10.5 percent in 1995 before declining to 6.7 percent in the first half of 1996. In 1995 external financing exceeded the accrual deficit, enabling the Government to repay some expenditure arrears while reducing bank financing to less than 1 percent of GDP. Bank financing of the deficit continued to be below 1 percent during the first half of 1996 while nonbank financing,⁹ mainly T-bills, emerged as an additional but limited source of deficit financing because the bulk of T-bills were held by commercial banks. In addition, the stock of expenditure arrears, which stood at dram 4.8 billion at end-December 1995, was eliminated by end-June 1996 in part through the use of promissory notes.¹⁰

C. Revenues

Tax reforms and tax administration

29. In an effort to increase tax revenues, the authorities implemented a number of additional tax reform measures in 1995 and early 1996. The personal income tax was introduced in April 1995, and the presumptive income tax on small businesses was introduced in July 1995.¹¹ VAT exemptions for butter, oil and sugar were eliminated in June 1995, and VAT exemptions for cultural and humanitarian organizations were reduced on January 1, 1996. Effective December 1, 1995 excise taxes were increased for a number of commodities including gasoline, alcoholic beverages, tobacco products and automobiles (Appendix II).¹²

30. A number of tax administration measures were also implemented, especially during the first half of 1996. A large taxpayer unit was set up in the Tax Inspectorate (TI), which monitors 127 large enterprises that provide 60 percent of enterprise revenues. An enforcement unit has also been set up in the TI, which will become effective in enforcing tax compliance with due process of law, once the Tax Enforcement Law is passed by the end of 1996. The Government has also distributed Taxpayer Identification Numbers (TIN) to over 21,000 enterprises. Currently, TINs are also being distributed to individuals.

⁹Nonbank financing includes privatization receipts and T-bills.

¹⁰Promissory notes have been issued in the past by the Ministry of Finance. However, it has ceased to issue these as of August 1, 1996.

¹¹See attached Tax Summary in Appendix II for specific tax rates.

¹²All excise taxes are levied on an ad valorem basis, on the production price in the case of domestically produced goods and on the declared customs value for imported goods. However, excise taxes on domestically produced goods are levied on a tax-inclusive basis, while those on imported goods are levied on a tax-exclusive basis.

CHART 5 ARMENIA PUBLIC FINANCE

Source: Armenian authorities; and Fund staff estimates.

31. Despite these efforts, tax collections continue to be hurt by administrative difficulties, and by a failure to expand the tax base sufficiently to keep pace with the expansion of output in the private sector. In both 1995 and the first half of 1996, the state sector accounted for about 90 percent of tax revenues, while it is estimated that about 50 percent of the total output is produced by the private sector, implying an inequitable sharing of the tax burden.

Tax revenues and grants

32. Tax revenues and grants as a percent of GDP fell by 50 percent between 1994 and the first half of 1996, declining from nearly 27.7 percent to 13.8 percent during this period. Although overall tax revenues declined somewhat, from 13.1 percent of GDP in 1994 to 12.7 percent in 1995 of GDP and 10.5 percent of GDP in the first six months of 1996, foreign grants to the budget—mostly flour and grain used for bread—fell much more sharply, from 11.8 percent of GDP in 1994 to 3.6 percent of GDP in 1995 and 1.4 percent of GDP during the first half of 1996.

33. The major sources of tax revenues for the budget in 1995 and 1996 have been the Enterprise Profits Tax (EPT), the VAT, the payroll tax, and the personal income tax (PIT). Together they accounted for nearly 88 percent of tax revenues in 1995 and 76 percent in the first six months of 1996 (Table 5 and Chart 6). In terms of the ratio of taxes to GDP, they amounted to 11 percent in 1995 and 8 percent in 1996. While collections from the payroll tax have improved, collections from the EPT decreased from 5 percent of GDP in 1995 to 2 percent in the first half of 1996. Part of the decrease in EPT was due to the fact that the slowdown in inflation during this period reduced the profitability that firms had enjoyed in previous inflationary periods. In addition, effective January 1, 1996 the ceiling of wage cost deduction from profits was increased to 15 times the minimum wage,¹³ lowering EPT receipts.

34. Collections from excises and customs increased fairly rapidly during the first six months of 1996. Excise tax revenues increased from 0.5 percent in 1995 to 1.2 percent in the first half of 1996, because of the increased excise rates implemented in December 1995. The largest excise collections came from cognac, jewelry, and cigarettes. Collections from customs increased steadily from 0.5 percent in 1995 to 0.8 percent in the first half of 1996, reflecting increased imports, especially from western countries, and improvements in tax administration.¹⁴

¹³Prior to this, enterprises could deduct ten times the minimum wage to calculate EPT.

¹⁴Customs currently collects import duties on imports, while the TI is responsible for collecting VAT on imports.

Table 5. Armenia: Distribution of Tax Revenues, 1994-96

	1994	1995				1995	1996		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Jan-Jun
(In percent of total tax revenues)									
Tax revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100	100
Value-added tax	20.8	18.9	24.9	28.4	27.4	25.6	23.0	25.0	24.2
Excises	3.4	2.8	3.2	2.0	5.3	3.6	13.6	10.3	11.7
Enterprise profit tax	43.8	41.5	39.1	34.4	32.2	35.9	16.7	23.3	20.6
Personal income tax	9.3	11.4	10.9	10.2	9.4	10.3	11.0	9.8	10.3
Land tax	1.7	1.0	1.2	1.7	4.9	2.6	2.0	1.6	1.7
Customs duties	3.2	4.9	3.6	3.2	4.6	4.1	7.4	7.6	7.5
Payroll taxes	11.6	19.0	16.6	17.1	13.7	16.1	22.0	18.1	19.7
Other taxes 2/	6.1	0.5	0.5	1.9	1.9	1.4	2.7	3.1	2.9
Presumptive income tax	0.0	0.0	0.0	0.2	0.4	0.2	0.7	0.7	0.7
Property tax	0.0	0.0	0.0	0.9	0.3	0.3	0.9	0.7	0.8

Sources: Armenian authorities; and Fund staff estimates.

D. Expenditures

Expenditure reforms

35. A number of important reform measures were implemented in 1995-96 to help the rationalization of expenditures. The liberalization of bread prices in June 1995 eliminated the major remaining subsidy in the budget while expenditures on the social safety net during the first half of 1996 decreased to 3.8 percent of GDP compared with 5.5 percent of GDP in 1995 largely due to improved targeting. The most important structural development with respect to expenditure management is the continuing institution building including the establishment of a Treasury Department in the Ministry of Finance and of 40 Field Treasuries throughout the country.

Composition of expenditure

36. Total government expenditure fell from 44 percent of GDP in 1994 to 30 percent in 1995 and 21 percent in the first half of 1996 with both current and capital expenditure declining by more than 50 percent (as a percent of GDP) during this period. Spending on wages and transfers increased substantially, together increasing from 17.1 percent of current expenditures in 1994 to 44.9 percent of current expenditures in the first half of 1996, while spending on subsidies, other goods and services and capital expenditure declined dramatically (Table 6 and Chart 7).

37. In terms of GDP, expenditure on wages increased from 1.8 percent in 1994 to 3 percent in the first six months of 1996, even as budgetary employment was being reduced, resulting in higher nominal and real average budgetary sector wages. While interest expenditure on external loans dropped from 0.8 percent of GDP in 1994 and 1995 to 0.5 percent in the first half of 1996, expenditure on domestic interest increased from about 1 percent of GDP in 1994 to over 3 percent in 1995, reflecting interest payments to the CBA and the additional cost of borrowing through T-bills, which were first issued on September 14, 1995. Domestic interest expenditure fell to 1 percent of GDP in the first half of 1996 reflecting the decline in interest rate charged by the CBA on government borrowing.

38. Expenditure on budgetary transfers including expenditure on the social safety net increased from 4 percent of GDP in 1994 to 5.5 percent in 1995, before falling to about 4 percent in the first half of 1996. Expenditure on pensions increased from 1.7 percent of GDP in 1994 to 2.8 percent of GDP in 1995 and remained fairly constant during the first half

Table 6. Armenia: Distribution of Current Expenditure, 1994-96

	1994	1995				1995	1996		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Jan-Jun
(In percent of total current expenditure)									
Current expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Wages	5.4	11.9	10.3	14.2	10.1	11.5	20.9	17.1	18.7
Subsidies	37.5	10.5	5.3	0.9	2.5	4.2	0.1	1.4	0.9
Interest	5.7	3.7	18.4	16.3	12.9	13.7	8.3	9.1	8.7
Domestic interest	3.4	0.0	14.2	13.3	9.0	10.0	5.8	6.0	6.0
External interest	2.3	3.7	4.1	3.1	3.9	3.7	2.4	3.0	2.8
Transfers	11.7	26.5	23.2	25.5	23.1	24.3	27.6	25.3	26.2
Pension and social safety net	8.9	21.4	17.3	23.2	22.6	21.1	25.1	22.7	23.7
Payment of contingent liabilities	1.6	3.0	5.6	0.2	0.0	2.1	0.0	1.7	1.0
Other transfers	1.2	2.2	0.3	2.1	0.5	1.1	2.5	0.8	1.5
Goods and services	39.8	47.3	42.8	43.1	51.5	46.3	43.2	47.1	45.5
Health and education	6.1	8.2	11.0	9.9	13.9	10.9	8.5	6.4	7.3
Other	33.7	39.2	31.8	33.9	37.7	35.3	34.6	40.8	38.2

Sources: Armenian authorities, and Fund staff estimates.

CHART 6
ARMENIA
COMPOSITION OF TAX REVENUE, 1994-96
(In percent of total tax revenue)

- 20a -

Source: Armenian authorities.

CHART 7
ARMENIA
COMPOSITION OF CURRENT EXPENDITURES, 1994-96
(In percent of total current expenditure)

Source: Armenian authorities.

of 1996, mainly due to improved targeting (Appendix I Tables 8-10).¹⁵ Improved targeting¹⁶ of child allowances resulted in an increase in the monthly allowance per child from dram 1,080 in December 1995 to dram 1,320 effective January 1, 1996 while reducing total expenditures on child allowances from 1.6 percent of GDP in 1995 to 0.9 percent of GDP in the first half of 1996. Expenditures on unemployment benefits grew from negligible levels in 1994 to 0.1 percent of GDP in 1996, reflecting the Government's efforts to better target the benefits but also to increase the real value of these transfers which had been eroded by inflation in 1993 and 1994.¹⁷

39. Budgetary transfers also include payments on contingent liabilities for which the Government acts as a guarantor. In both 1994 and 1995 the budget incurred liabilities for loans that it had guaranteed and on which the borrowers had defaulted. Liabilities for interest and principal on these loans constituted 0.6 percent of GDP in 1994, 0.5 percent of GDP in 1995 and 0.2 percent in the first half of 1996.

40. Expenditure on goods and services declined significantly between 1994 and the first half of 1996, falling from 13.7 percent of GDP to 7.3 percent of GDP. Expenditure was reoriented toward health and education in 1995, although it fell in the first six months of 1996, while expenditure on other goods and services declined dramatically from 11.5 percent of GDP in 1994 to 6.2 percent of GDP in the first half of 1996. Expenditures in this category include spending on law and defense.

Capital expenditure and net lending

41. Capital expenditure and net lending have declined as a share of GDP over the last two years, falling from about 10 percent in 1994 to 7 percent in 1995 and 4.5 percent in the first half of 1996, owing almost entirely to the decline in capital expenditure, especially domestically financed capital expenditure. Externally financed capital expenditure remained fairly constant. Major projects including an EBRD-financed project for the construction of the Hrazdan electric power station, a project financed by Russia for repairs to the nuclear power station, and the World Bank sponsored Earthquake Reconstruction Loan.

¹⁵This was the result of the enactment of a new Pension Law in December 1995, which raised the minimum retirement age from 60 to 60.5 years for men and from 55 to 55.5 years for women. By 2011, the retirement age will be gradually raised to 65 and 63 years for men and women, respectively.

¹⁶Effective January 1, 1996 the eligible age for child allowances was reduced from 16 to 6 years, resulting in halving the number of eligible children from 1.3 million in 1995 to 640,000 at the beginning of 1996.

¹⁷Monthly benefits have been almost doubled from dram 1,358 in December 1995 to dram 2,500 from January 1, 1996 while the duration of benefits has been reduced from 36 weeks to 12 weeks. New entrants to the workforce are no longer eligible for these benefits.

IV. Monetary Policy and Financial Sector Developments

A. Overview

42. During the last two years, the CBA has successfully reduced inflation by following a prudent monetary policy and eliminating the system of directed credits. However, the growth in reserve money and broad money has been uneven, reflecting lingering difficulties in coordination between fiscal and monetary policy. The stance of monetary policy is described in Section VI. A. using a monetary impulse measure.

B. Developments in Monetary Aggregates

Reserve money and its components

43. While the shares of net foreign assets (NFA) and net domestic assets (NDA) in reserve money fluctuated widely over the past 18 months—reflecting large disbursements of official financing and subsequent massive sales of foreign exchange in an attempt to sterilize the effect of the inflow—reserve money itself remained fairly stable in the first three quarters of 1995. However, in the last quarter of 1995 it increased by 24 percent, followed by a fall of 6 percent in the first quarter of 1996, and a rebound to nearly its end-1995 level by June 1996 (Table 7 and Chart 8), reflecting largely fluctuations in net government deposits with the CBA.

44. The banking system as a whole continues to meet the reserve requirements on average, although this masks the divergent behavior of a group of banks that overperformed (for liquidity reasons) and another group that failed the requirement in the first half of 1996. The interbank market for funds is not yet functioning efficiently, and there has been very limited lending from one group to the other, thus not allowing the latter group to meet the reserve requirements by borrowing short-term funds. In addition, the penalties are not sufficiently high to give banks a strong incentive to avoid breaching the reserve requirement.

Broad money and its components

45. Broad money growth, at 69 percent between end-December 1994 and 1995 was over twice the end-period inflation for this period, whereas inflation was somewhat higher than broad money growth in the first six months of 1996 (Table 8). The share of currency in broad money showed a strong upward trend throughout 1995, increasing from around 42 percent at end-1994 to 61 percent by end-1995. While this was followed by a marginal decline of around 3 percentage points by end-June 1996, the deteriorating trend in this ratio signals an increasing lack of confidence in banks, and their marginal role in intermediating transactions in the Armenian economy. As a result, the money multiplier declined by an additional 13 percent during this period, remaining at a very low level. The ratio of broad money to annual GDP was 8 percent at end-1995 and 6 percent at end-June 1996.

Table 7. Armenia: Accounts of the Central Bank
(End of period, millions of dram)

	1994	1995					1996	
	Q4	Q1	Q2	Q3	Q4		Q1	Q2
	Actual	Actual	Actual	Actual	Actual		Actual	Actual
Stocks								
NFA (convertible currencies)	3,332	9,652	18,831	13,415	14,639		14,307	11,306
NDA	11,504	13,365	3,777	10,182	14,724		13,225	18,098
General government	7,885	9,244	1,565	6,502	10,201		8,464	11,939
Republican government	8,463	9,521	2,176	6,839	10,316		8,513	12,023
Local government	0	0	0	0	0		0	0
Pension and employment fund	-578	-277	-611	-337	-115		-49	-84
Banks	3,629	3,190	1,999	2,999	3,781		3,844	4,141
Other items, net	-10	931	213	680	742		917	2,018
RESERVE MONEY 1/	14,836	23,017	22,608	23,596	29,363		27,532	29,404
Currency outside CBA	11,054	12,567	17,904	21,173	25,743		22,799	25,519
Required reserves 2/	1,510	2,458	3,174	1,891	2,392		1,296	938
Correspondent accounts 3/	2,272	7,992	1,530	533	693		2,999	2,726
Other accounts	0	0	0	0	535		438	221
Percentage change (with respect to end of previous period)								
NFA (convertible currencies)	52	190	95	-29	9		-2	-21
NDA	50	16	-72	170	45		-10	37
General government	49	17	-83	315	57		-17	41
Republican government	57	13	-77	214	51		-17	41
Local government	0	0	0	0	0		0	0
Pension and employment fund	-496	-52	121	-45	-66		-57	71
Banks	80	-12	-37	50	26		2	8
Other items, net	-103	-9412	-77	219	9		23	120
RESERVE MONEY 1/	50	55	-2	4	24		-6	7
Currency outside CBA	63	14	42	18	22		-11	12
Required reserves 2/	349	63	29	-40	27		-46	-28
Correspondent accounts 3/	-17	252	-81	-65	30		333	-9
Other accounts	0	0	0	0	0		0	0

Source: Central Bank of Armenia; and Fund staff estimates.

1/ Reserve money includes cash issue, required reserves on dram deposits, foreign exchange deposits, and correspondent accounts of commercial banks.

2/ From January 1996, this includes required reserves on foreign exchange deposits only.

3/ From January 1996, this includes required reserves on dram deposits.

Table 8. Armenia: Monetary Survey
(End of period, millions of dram)

	1994	1995				1996	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	Actual	Actual	Actual	Actual	Actual	Actual	Actual
Stocks							
NFA (convertible currencies)	6,435	11,521	20,309	13,278	14,823	15,940	13,721
NDA	17,421	14,858	13,410	21,504	25,429	21,119	27,412
General Government	6,901	6,238	-1,183	4,296	8,819	5,874	11,616
Republican Government	8,423	8,252	1,178	6,178	9,883	6,811	12,389
Local Government	-785	-1,503	-1,532	-1,489	-857	-732	-530
Pension and Employment Fund	-737	-511	-829	-393	-207	-205	-243
Economy	20,740	25,620	29,526	32,717	37,947	39,694	31,340
Enterprises	20,095	25,097	28,098	29,541	33,856	35,713	27,503
Rest of Economy	645	523	1,428	3,176	4,091	3,981	3,837
Other Items, Net	-10,220	-17,000	-14,933	-15,509	-21,337	-24,449	-15,544
Broad Money	23,856	26,379	33,719	34,781	40,252	37,059	41,133
Currency in Circulation	10,063	11,139	16,371	19,314	24,601	21,075	23,890
Dram Deposits	3,871	6,426	7,714	8,381	7,432	7,437	8,101
FX Deposits	9,922	8,814	9,634	7,086	8,219	8,547	9,142
Memorandum Items:							
Money multiplier	1.6	1.1	1.5	1.5	1.4	1.3	1.4
Velocity	4.8	3.7	3.6	3.7	3.7	4.1	3.8
Percentage change (with respect to end of previous period)							
NFA (convertible currencies)	17	79	76	-35	12	8	-14
NDA	16	-15	-10	60	18	-17	30
General Government	62	-10	-119	-463	105	-33	98
Republican Government	83	-2	-86	424	60	-31	82
Local Government	-346	91	2	-3	-42	-15	-28
Pension and Employment Fund	-328	-31	62	-53	-47	-1	19
Economy	52	24	15	11	16	5	-21
Enterprises	54	25	12	5	15	5	-23
Rest of Economy	7	-19	173	122	29	-3	-4
Other Items, Net	261	66	-12	4	38	15	-36
Broad Money	16	11	28	3	16	-8	11
Currency in Circulation	74	11	47	18	27	-14	13
Dram Deposits	-7	66	20	9	-11	0	9
FX Deposits	-6	-11	9	-26	16	4	7

Source: Central Bank of Armenia; and Fund staff estimates.

CHART 8
ARMENIA
SELECTED MONETARY INDICATORS

Source: Armenian authorities; and Fund staff estimates.

1/ Based on stocks at end-quarters.

2/ Interest rates are quoted on a simple (uncompounded) basis.

This page intentionally left blank

Credit expansion

46. CBA credit to banks more than doubled in nominal terms during the year ending in June 1996 restoring it to its earlier levels following a severe contraction during the first six months of 1995. Banking system credit to the economy increased steadily during 1995 and the first quarter of 1996, but fell sharply in the second quarter.¹⁸

47. In 1995 credit auctions became the primary instrument for the CBA to manage liquidity in the banking system. On average, the monthly amount of credit extended through the auctions in the second half of 1995 amounted to around dram 1 billion (0.2 percent of annual GDP). The CBA not only had control over the amount supplied, but given the short maturity of credits extended, withholding fresh credit at the auctions was also an effective tool to withdraw liquidity from the banking system, as expired credits had to be repaid. This was demonstrated at the end of the third and fourth quarters of 1995, when the CBA rapidly constrained new credit in an effort to limit NDA.

48. Following the initial introduction of credits auctioned against T-bill collateral in October 1995, the collateral requirement was extended to apply to all credit auctioned from January 1, 1996 although the formal decree was signed only on April 1, 1996. Since for all practical purposes only T-bills qualified for this purpose,¹⁹ their lack of availability as collateral became a severely binding constraint. This resulted in a sharp drop in the volumes auctioned, except in March, when government guarantees facilitated a sharp expansion of auctioned credit to dram 1.6 billion as against dram 0.2 billion and dram 0.4 billion auctioned in January and February respectively.²⁰ Although the first half of 1996 saw some expansion of interbank markets, the move to full collateralization has clearly limited the liquidity position of banks during this period.

C. Tools of Monetary Policy

Reserve requirements

49. The uniform reserve requirement of 15 percent adopted in April 1994 was replaced by a differential rate of required reserves on different types of accounts in May 1996. Under the new system commercial banks are required to hold a 3 percent reserve requirement for all

¹⁸This was primarily due to a technical correction related to the accounting of accumulating overdue interest in deposit money banks' account, which resulted in large offsetting reductions in the magnitudes of credit to the economy and other items, net in the second quarter of 1996.

¹⁹In principle gold, or dram denominated claims on resident banks acceptable to the CBA can also be used as collateral.

²⁰The volume of auctions has remained at very low levels through August 1996.

deposits of physical persons; 5 percent for deposits of legal entities and economic agents with no legal entity with maturity of 31 days to one year; 15 percent for current deposits, time deposits under one month, and for correspondent deposits of nonresident banks; and finally, 3 percent for time deposits, balances on resident banks' correspondent accounts with each other, loans from International Financial Organizations for investment purposes, and long term obligations of banks. As a result of these changes, the weighted overall reserve requirement fell by about 3 percentage points to 12 percent.

T-bills and open market operations

50. The T-bill market was launched on September 14, 1995 to serve the dual purpose of providing a means of raising non-inflationary financing for the budget and an additional instrument for conducting open-market operations by the CBA. Currently auctions are held twice a week, alternating between 28-day, 91-day and, from May 21, 1996, 182-day T-bills.²¹ The central T-bill depository account--maintained by the CBA--keeps track of T-bills purchased and outstanding,²² and of T-bills pledged as collateral for CBA credits through the auction or in interbank lending. As of end-July the total face value of the outstanding stock of T-bills was dram 3.2 billion, or 0.5 percent of 1996 GDP, of which 98 percent was held by banks. Of the total, 91-day T-bills accounted for 57 percent, and 182-day T-bills for 29 percent; the remainder was 28-day T-bills. The average yield on the 28-day T-bills fluctuated around 38 percent during the last quarter of 1995 and 36 percent and 40 percent during the first six months of 1996²³ (Chart 9).

51. While there now exists a functioning primary market for T-bills in Armenia, there is no substantive secondary market. Its development is hindered by limited supply, the short average maturity of T-bills outstanding, the excessively high commissions demanded by the stock exchange for transacting in T-bills, and the present low level of banks' overall liquidity. The CBA, which does not participate in the primary market as a buyer, maintains a standing offer to redeem T-bills before expiration at a break-even price depending on the average price at the auction and the time remaining to maturity. As the T-bill market deepens, there may be potential for drawing in significant funds from outside the banking system, and for inducing investors to diversify away from foreign currency denominated deposits.

²¹Sealed bid auctions for units of dram 50,000, with each accepted bid paying the specific price bid. Since May 6, 1996, any bank maintaining a minimum presence on the market is allowed to participate as a dealer.

²²Thus, T-bills are not physically transferred; in fact, they do not exist in a form other than an accounting entry in the central depository account.

²³This yield is calculated on a simple annual basis, and is tax-free. If recalculated on a compound basis, the yield curve remained slightly inverted through end-July 1996.

CHART 9
ARMENIA
OUTSTANDING STOCK AND AVERAGE ANNUAL YIELD ON TREASURY BILLS 1/

Source: Central Bank of Armenia and Ministry of Finance.

1/ Average yield is quoted on a simple (uncompounded) basis.

This page intentionally left blank

52. Besides T-bills, the Ministry of Finance has also issued interest-free promissory notes with a redemption date of December 1, 1996, with the intention to help clear expenditure arrears. These promissory notes traded at a discount from their face value on an active secondary market at the stock exchange. Given the degree of their substitutability with T-bills, the existence of promissory notes have been a complicating factor for the further development of the T-bill market. These notes were a form of arbitrary taxation since the burden of paying the yield is placed on the first economic agent forced to accept them at face value. The issuance of promissory notes also created perverse incentives for running up tax arrears, as promissory notes could in effect be used to pay them off at a discount. Finally, promissory notes added to liquidity in the economy, which was outside the direct control of the CBA.

D. Interest Rates

53. Following a steady decline in inflation during 1995, the refinance rate fell from a high of 210 percent in January to 52 percent in October, where it has remained through August 1996. The refinance rate is used to calculate interest charges on net credit to government from the CBA, and serves as the basis for calculating charges for bank overdraft, as well as the penalty for banks that have breached the reserve requirement over a two-week reporting period.²⁴

54. Banks' interest rates on one-month deposits and loans have exhibited a downward trend through September 1995, and fluctuated around 40 and 70 percent, respectively during the first half of 1996. However, the margin between the lending and deposit rates has remained substantial, reflecting primarily the lack of competition, and the fragile state of the banking system; in addition it may also reflect adverse selection of applicants for credits at high real rates of interest on banking lending.²⁵

E. Banking System Developments

55. The banking system in Armenia consists of the CBA, whose main function is to conduct monetary policy; four major commercial banks, Ardshinbank, Armeconombank, Armagrobank and Armimpexbank, which comprise about 70 percent of the assets and 37 percent of the statutory capital of the banking sector; 28 smaller commercial banks; and the Midland Bank of Armenia, which began operations in March 1996 with a statutory capital of US\$4 million, or 33 percent of total statutory capital of commercial banks. Much of the commercial banking sector in Armenia is characterized by large volumes of nonperforming

²⁴The overdraft interest rate is 30 percent higher than the refinance rate on a simple annual basis. The penalty for breaching the reserve requirement during a two-week reporting period equals one twenty-sixth of the average shortfall from the amount required times 1.2 times the refinance rate.

²⁵Although ex-post real interest rates dipped to negative levels in high inflation months, on average real lending interest rates remained highly positive since the beginning of 1995.

loans, a problem which is becoming more pervasive over time. Over two-fifths of loans extended by the banking system were nonperforming in June 1996; and a predominant portion of these were held by the four major banks. In spite of high real deposit rates, the public appears to perceive bank deposits as risky assets. This is reflected by the high level of disintermediation, with the ratio of bank deposits to broad money falling from 58 percent in the first quarter of 1995 to 42 percent in the second quarter of 1996. On the positive side, some smaller private banks have been making good progress in developing new banking services and generating profitable banking business. Moreover, total capital in the banking system has increased since October 1995 by two-thirds, although much of this increase is due to the beginning of operations of Midland Bank.

F. The Payment System

56. Payments in Armenia have been realized primarily through payment orders so far. Interbank clearing and settlement is performed by the CBA through settlement accounts held by all banks at the CBA. An interbank clearing system is functioning in Yerevan from May 1994. However, in order to reduce transaction costs and delays, an electronic payment system based on SWIFT format has been developed at the CBA (CBANET), which is fully functional in Yerevan since September 1996 and will cover the entire country from February 1997.

V. External Sector Developments

A. Overview

57. Two main developments reflected the marked transformation of the Armenian economy during 1995 and the first half of 1996. First, the composition of trade in 1995 shifted further away from formerly centrally planned economies and countries of the former U.S.S.R. and toward market economies, especially the industrialized countries. Trade flows with the rest of the world (RoW)²⁶ increased sharply during 1995 and in the first half of 1996 compared with earlier periods. Second, Armenia's trade became more market-determined as bilateral clearing trade agreements with Russia and Turkmenistan, which accounted for about one-third of total exports and one-quarter of total imports, were dismantled at end-1995. However, Armenia's trade potential still remains restricted by the economic blockade associated with the conflict over Nagorno-Karabakh, and the closing of trade routes with Turkey and Azerbaijan.

²⁶RoW refers to all countries other than those of the former U.S.S.R..

B. Balance of Payments

General developments

58. The current account deficit (excluding official transfers) increased from 36 percent of GDP in 1994 to 38 percent of GDP in 1995, largely as a result of increased imports in the third and fourth quarters of 1995. During the first six months of 1996, the current account deficit remained stable at about 35 percent of GDP (US\$270 million) compared to the same period a year earlier (Table 9 and Chart 10). Exports increased by 14 percent on an annual basis in the first half of 1996 as higher exports to RoW were only partly offset by a decline in exports to countries of the former U.S.S.R., particularly to Turkmenistan, following the dismantling of clearing trade. Imports in the first half of the year were also higher, reflecting improved coverage of customs statistics and stronger demand for consumption and capital goods mainly from the RoW.

Trade with countries of the former U.S.S.R.

59. The share of exports directed to the countries of the former U.S.S.R. decreased from 62 percent in 1995 to 43 percent during the first six months of 1996, while the share of imports originating from these countries halved, from 50 percent to 24 percent during the same period (Table 10). Trade continued to be directed mostly to Russia and Turkmenistan. In relation to GDP, exports to these countries declined from 13 percent of GDP in 1995 (US\$167 million) to 6 percent of GDP (US\$45 million) during the first half of 1996, following the dismantling of clearing trade, while imports from them declined from 26 percent of GDP (US\$334 million) to 15 percent of GDP (US\$113 million) during the same period.

60. Russia remained the most significant trade partner of Armenia among the countries of the former U.S.S.R., accounting for half of Armenia's exports to these countries and 40 percent of Armenia's imports from them in 1995. During the first six months of 1996, 68 percent of exports to countries of the former U.S.S.R. were directed to Russia while imports from Russia remained constant. The main imports from Russia were machines and equipment, oil products, livestock, precious, semiprecious, and nonprecious metals. Goods exported to Russia comprised mainly precious and semiprecious stones, machines and equipment, food products, textile products, and nonprecious metals. The 1995 clearing trade agreement with Russia stipulated that Armenia would import 200,000 tons of mazut (heavy fuel oil) and the same amount of oil. However, since late 1994, clearing trade with Russia has been inoperative, as neither side found it advantageous when Russia began charging world-market prices for fuels. The termination of clearing trade with Russia resulted in a decline of trade with Russia, with an offsetting impact on trade with other countries.

61. Turkmenistan continued to be Armenia's second most important trade partner among the countries of the former U.S.S.R., accounting for 40 percent of Armenia's trade with these countries. Two developments affected trade with Turkmenistan significantly: the dismantling

Table 9. Armenia: Balance of Payments and External Financing

	1994	1995				1995	1996		
		Q1	Q2	Q3	Q4		Q1	Q2	Jan-Jun
Current account	-231.4	-133.0	-79.0	-106.6	-164.3	-483.8	-146.2	-124.6	-270.8
(excluding official transfers)									
Trade balance	-191.9	-107.3	-65.1	-89.0	-140.6	-402.0	-135.8	-120.6	-256.3
Exports	289.3	35.4	56.3	85.9	93.3	278.9	42.5	62.1	104.6
Imports	-481.2	-142.7	-121.4	-174.9	-233.9	-672.9	-178.3	-182.6	-360.9
of which: gas	-69.4	-26.4	-26.9	-41.4	-34.5	-129.2	-25.2	-11.2	-36.4
Services (net)	-75.5	-27.4	-18.4	-23.4	-30.1	-99.3	-16.6	-11.9	-28.5
Non-factor services	-68.8	-25.9	-15.4	-21.6	-26.9	-89.8	-14.5	-10.0	-24.5
Credit	47.8	6.2	9.1	8.7	9.6	33.5	7.0	8.5	15.5
Debit	-116.5	-32.1	-24.5	-30.2	-36.5	-123.4	-21.5	-18.5	-40.0
Interest (net)	-6.7	-1.5	-3.0	-1.8	-3.2	-9.5	-2.0	-2.0	-4.0
Private transfers	36.0	1.7	4.5	5.8	6.4	18.4	6.1	7.9	14.0
Capital flows	-1.8	23.4	17.7	-41.2	6.1	6.8	1.8	-22.4	-20.6
Amortization	-8.6	0.0	-0.2	-49.9	0.0	-50.1	-5.4	-30.6	-36.0
Foreign direct investment	2.6	5.9	5.9	3.1	4.1	19.1	7.3	8.2	15.5
Short-term flows	-7.1	3.1	1.2	-3.6	0.0	8.7	0.0	0.0	0.0
Trade credits	4.1	14.4	10.8	9.2	1.9	36.4	0.0	0.0	0.0
Overall balance	-232.4	-109.6	-61.3	-147.8	-158.3	-477.8	-144.4	-147.0	-291.4
Change in gross official reserves	-30.2	-17.7	-22.6	-17.3	-17.2	-74.8	-22.6	8.8	-13.9
Financing requirement	262.6	127.4	83.9	165.1	175.4	551.8	167.0	138.2	305.2
IFIs	42.3	28.8	64.4	40.3	27.1	169.5	54.7	19.8	74.5
IMF 1/	23.6	0.0	0.0	30.7	15.1	45.8	24.7	0.0	24.7
STF	23.6	0.0	0.0	25.6	0.0	25.6	0.0	0.0	0.0
SBA	0.0	0.0	0.0	5.1	15.1	20.2	0.0	0.0	0.0
ESAF	0.0	0.0	0.0	0.0	0.0	0.0	24.7	0.0	24.7
IBRD/IDA	7.2	22.6	54.3	8.1	7.3	92.3	26.4	18.1	44.5
Rehabilitation Credit	0.0	19.2	44.2	0.9	0.0	64.3	0.0	0.0	0.0
SAC	...	...	...	...	...	...	20.5	8.9	29.4
Others	7.3	3.5	10.0	7.2	7.3	28.0	5.9	9.2	15.1
EBRD	11.5	6.2	10.1	1.5	4.6	22.4	2.5	0.7	3.2
IFAD	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	2.0
Financing requirement after IFIs	220.4	98.6	19.5	127.8	148.3	382.3	112.3	118.4	230.9
Grants 2/	237.3	52.6	41.3	47.8	57.1	198.9	30.5	31.8	82.3
United States	187.8	32.7	36.9	37.9	33.9	141.5	21.4	36.0	57.4
European Union	46.9	18.3	2.8	4.7	6.5	32.3	3.1	11.1	14.2
Netherlands 3/	0.0	0.8	0.8	2.9	8.2	12.7	0.0	0.0	0.0
Others	3.5	0.8	0.8	2.3	8.6	12.4	6.0	4.8	10.8
Balance of payments and other financing	23.7	0.6	7.4	0.0	0.0	8.8	53.4	0.0	53.4
Errors and omissions	-16.6	45.4	-29.1	27.0	91.2	134.5	62.5	41.6	104.0
Remaining financing gap	-24.0	0.0	0.0	49.2	0.0	49.2	-34.0	25.0	-9.0
Changes in overdue obligations 4/	-24.0	0.0	0.0	49.2	0.0	49.2	-34.0	25.0	-9.0
Residual financing gap	-24.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Current account balance (in percent of GDP)	-35.6	-44.1	-26.3	-33.5	-44.8	-37.6	-38.6	-32.2	-35.4
Gross official reserves (convertible)	32.3	50.0	72.7	90.0	107.1	107.1	129.8	121.0	121.0
(in months of imports of G&NFS)	0.7	0.9	1.5	1.3	1.2	1.6	1.9	1.8	1.8
Net international reserves (convertible)	8.2	23.7	46.3	33.7	36.6	36.6	35.8	28.3	28.3
External debt	200.2	233.0	309.1	347.6	371.0	371.0	471.0	482.9	482.9
External debt/GDP (in percent)	30.8	19.3	25.7	27.3	25.3	28.9	31.1	31.2	0.0
Debt service	7.8	2.1	3.9	52.6	4.2	62.7	8.5	34.1	42.6
(in percent of exports of G&NFS)	3.0	5.0	6.0	55.6	4.1	28.6	17.2	48.3	35.5
Dollar exchange rates	287.4	405.2	408.8	409.0	401.7	406.2	402.9	407.2	405.1
Dollar GDP	650.9	301.6	300.2	318.0	366.7	1285.9	379.2	306.8	766.0

Sources: Data provided by the Armenian authorities, multilateral and bilateral donors, and Fund staff estimates.

1/ Includes STF purchases equivalent to 50 percent of quota, SBA purchases of 20 percent of quota, and ESAF access of 150 percent of quota.

2/ Includes food aid, technical and macroeconomic assistance.

3/ Co-financing of the World Bank Rehabilitation Credit.

4/ A decrease implies a reduction. The reduction in the first quarter of 1996 refers to the elimination of arrears due to Turkmenistan; the increases in overdue obligations in the third quarter of 1995 and second quarter of 1996 reflect non-payment of the EU loan then under negotiation.

CHART 10
ARMENIA
CURRENT ACCOUNT BALANCE, DEBT AND DEBT SERVICE

Current Account Balance (excluding official transfers)
(In percent of GDP)

External Debt and Debt Service

Source: State Department of Statistics, Ministry of Finance; and Fund staff estimates.

1/ Preliminary for 1996 Q1 and Q2.

2/ Excluding potential financing associated with the cumulative financing gap.

3/ Including debt service arising from potential financing associated with the cumulative financing gap and scheduled amortization payments to the EU.

This page intentionally left blank

Table 10. Armenia: Direction of Trade

	1994 Year	1995				1995 Year	1996		
		Q1	Q2	Q3	Q4		Q1	Q2	Jan-Jun
(In millions of U.S. dollars)									
Total Exports	209.3	35.4	36.3	35.2	23.3	270.9	42.5	62.1	104.6
Countries of the former USSR	145.3	21.4	38.6	55.8	51.4	167.2	22.5	22.7	45.2
Russia (fob)	92.8	10.6	22.2	26.9	28.6	88.3	17.2	13.4	30.6
Clearing trade	26.9	1.1	1.7	0.0	0.6	3.4	0.0	0.0	0.0
Non-clearing trade	65.9	9.5	20.5	26.9	28.1	85.0	17.2	13.4	30.6
Turkmenistan (fob)	43.7	9.8	14.2	25.0	19.6	68.7	2.3	5.2	7.5
Other	8.9	1.0	2.2	3.9	3.1	10.2	3.0	4.1	7.1
Rest of the world	64.0	14.0	17.7	30.1	41.9	103.7	20.0	39.4	59.4
Belgium	20.8	5.6	4.9	6.8	13.3	30.6	7.5	14.2	21.7
Germany	7.1	5.1	0.0	0.1	4.8	10.0	0.1	1.3	1.4
Iran	16.1	2.1	8.7	13.5	10.8	35.1	6.7	15.0	21.7
Other	28.0	1.2	4.1	9.7	13.0	28.0	5.7	8.9	14.6
Total Imports	401.2	142.7	121.4	174.9	233.9	672.2	178.3	182.6	360.9
Countries of the former USSR	219.6	79.3	55.7	84.2	114.8	334.0	68.6	44.5	113.1
Russia	110.4	44.7	20.3	32.0	36.6	133.7	24.9	19.1	44.0
Turkmenistan	69.4	26.4	26.9	41.4	34.5	129.2	25.2	11.2	36.4
Other	39.7	8.2	8.4	10.7	43.8	71.1	18.5	14.2	32.7
Rest of the world	181.7	63.4	65.7	90.7	119.1	338.9	109.7	138.2	247.9
Memorandum items									
(In percent of total exports)									
Total Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Countries of the former USSR	69.4	60.4	68.6	65.0	55.1	61.7	52.9	36.6	43.2
Russia (fob)	44.3	30.0	39.4	31.3	30.7	32.6	40.5	21.6	29.3
Clearing trade	12.9	3.1	3.0	0.0	0.6	1.2	0.0	0.0	0.0
Non-clearing trade	31.5	27.0	36.3	31.3	30.1	31.4	40.5	21.6	29.3
Turkmenistan (fob)	20.9	27.6	25.3	29.1	21.1	25.3	5.4	8.4	7.2
Other	4.3	2.8	3.9	4.5	3.3	3.8	7.1	6.6	6.7
Rest of the world	30.6	39.6	31.4	35.0	44.9	38.3	47.1	63.4	56.8
Belgium	9.9	15.8	8.7	7.9	14.3	11.3	17.6	22.9	20.8
Germany	3.4	14.4	0.0	0.1	5.1	3.7	0.2	2.1	1.3
Iran	7.7	5.9	15.4	15.7	11.6	13.0	15.8	24.2	20.8
Other	9.6	3.4	7.3	11.3	13.9	10.3	13.4	14.3	14.0
(In percent of total imports)									
Total Imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Countries of the former USSR	54.7	55.6	45.9	48.1	49.1	49.6	38.5	24.4	31.3
Russia	27.5	31.3	16.8	18.3	15.6	19.9	14.0	10.4	12.2
Turkmenistan	17.3	18.5	22.2	23.7	14.7	19.2	14.1	6.1	10.1
Other	9.9	5.7	6.9	6.1	18.7	10.6	10.4	7.8	9.1
Rest of the world	45.3	44.4	54.1	51.9	50.9	50.4	61.5	75.6	68.7

Source: State Department of Statistics; and Fund staff estimates.

of the clearing trade agreement at the end of 1995 and the regularization of gas arrears in March 1996. During the first six months of 1996, gas imports from Turkmenistan fell by 33 percent in volume compared with the same period in 1995. Since the dismantling of the trade agreement in January 1996, gas imports from Turkmenistan have been arranged exclusively between commercial enterprises. Gas imports during the first half of 1996 totaled US\$32 million, while the price of gas declined slightly to US\$75 per thousand cubic meters.

62. About 80 percent of imports by Armgazprom, the company responsible for importing gas, is delivered to Armenergo to generate electricity and the rest to chemical plants, hospitals, and other enterprises. According to the contract, payments between Armgazprom and Itera (a company representing the interests of Turkmenistan), Armgazprom has to pay 20 percent of the total gas cost in cash and the remaining balance may be settled through barter trade.

Trade with RoW

63. The share of trade with RoW has increased rapidly and by early 1996, the Islamic Republic of Iran, Belgium and Germany accounted for 75 percent of all exports to these countries. Imports from RoW, mainly the U.S., the Islamic Republic of Iran, Belgium, and France, increased from 50 percent of total imports at end-1995 to 76 percent by June 1996. Exports included jewelry and precious stones while imports included wheat, chemicals and some machinery and equipment. Most of the humanitarian aid in the form of wheat imports comes from the U.S. and the EU. Wheat imports from the U.S. totaled some 190 thousand tons in 1994 and 240 thousand tons in 1995. Exports and imports continue to be shipped through Georgia and the Islamic Republic of Iran.

C. Commodity Composition of Trade

64. Most of Armenia's exports are relatively low-technology, high-value added commodities, notably jewelry. Gold and diamonds are imported from Russia for processing, and re-exported to the West. Jewelry accounted for about one third of total exports in 1995 and the first six months of 1996, while machinery and equipment accounted for about 15 percent in 1995 and the first half of 1996. Other main exports include mineral products, chemicals and textiles. On the import side, the main imports are food products related to humanitarian aid and mineral products, each accounting for over 33 percent of total imports in 1995 (Appendix I Table 15 and Chart 11).

D. Services and Transfers

65. The balance of nonfactor services recorded a deficit of US\$90 million in 1995, largely due to high transport costs. The transportation cost of grains averaged US\$48 per ton in 1995. There is little official information on private transfers but anecdotal evidence suggests that the Armenian diaspora has been an important source of foreign exchange and disposable income. The figures for private transfers are inclusive of workers' remittances, and are estimated on the basis of imports covered by customs statistics.

CHART 11
ARMENIA
COMMODITY COMPOSITION OF EXPORTS AND IMPORTS
(In percent of total)

Source: Armenian authorities; and Fund staff estimates.

This page intentionally left blank

66. Armenia continued to receive substantial external financing support in the form of official transfers in 1995 (mostly humanitarian assistance), despite a moderate decline from the very high levels observed in 1994. Official transfers amounted to US\$200 million in 1995, equivalent to 75 percent of Armenia's export earnings and financing about one third of the current account deficit during the year. The main donors were the U.S. (US\$142 million) and the EU (US\$32 million).

E. Capital Account

Private flows

67. Armenia maintains a liberal policy on foreign direct investment which is set out in the 1994 Law on Foreign Investments. Profits or assets may be repatriated without restrictions, and certain foreign investors enjoy substantial tax benefits. For joint venture with foreign ownership of at least 30 percent, and with foreign capital of at least US\$100,000 tax benefits include: (i) a profit tax holiday for the first two years, and a 30 percent enterprise profit tax discount for the subsequent five years; (ii) exemptions from import tariffs on selected capital goods and raw materials; and (iii) income tax holidays for the first two years.

68. Private capital inflows have not been among the significant items in the capital account so far, reflecting in part the lack of progress toward a permanent peace in the region. Nevertheless, it is expected that the privatization of large enterprises through international tender toward the end of the year will result in increased foreign investment in the economy.

Official loans

69. Multilateral and bilateral creditors disbursed US\$170 million in 1995 and a further US\$130 million in the first half of 1996, mostly on concessional terms. The loans were contracted for various uses, including reconstruction work following the earthquake, and construction of infrastructure in the transport sector. Disbursements from bilateral creditors included a US\$8 million loan from Russia in 1995, and US\$15 million associated with food assistance from the U.S. in the first half of 1996.

70. Armenia has remained current on its obligations to multilateral and bilateral creditors; a preliminary agreement on two overdue loans to the European Union was reached in July 1996, which stipulates the initial terms for the repayment of the outstanding debt to the EU of about US\$73 million. Armenia is expected to make a first payment of ECU 8 million (US\$10 million) before December 1996, and a further repayment of ECU 8 million by March 1997. The EU agreed to provide concessional assistance through grants for food security purposes of ECU 9 million (US\$10 million, including technical assistance) by the end of September 1996 and of ECU 4 million (US\$5.8 million) by January 1997.

F. External Debt and Outstanding Balances

External debt

71. Since the signing of the "zero option" agreement with Russia,²⁷ Armenia's overall indebtedness has more than doubled between end-1994 and June 1996, increasing from US\$200 million to US\$483 million. Total scheduled debt service of the contracted loans rose from 3.0 percent of goods and nonfactor services in 1994 to 21 percent in 1995.

72. About half of the outstanding debt at end-June 1996 was owed to multilateral creditors and the remainder to official bilateral creditors. The main multilateral creditors were the World Bank (51 percent of the debt to multilateral institutions), the IMF (about 34 percent) and the EBRD (about 15 percent). Approximately 40 percent of the bilateral debt was owed to Russia and 36 percent to the EU.

73. On March 19, 1996 Armenia signed an agreement rescheduling gas arrears owed to Turkmenistan. The stock of outstanding arrears was regularized into a government debt of US\$34 million at interest rate of LIBOR plus 0.3 percent, to be repaid over a period of six years, and an additional US\$6 million of commercial debt to be paid by Armgazprom. On June 5, 1996, Armenia signed an agreement with Georgia, rescheduling the entire stock of debt, owed by Georgia, and amounting to US\$19.6 million. The terms of the agreement include a five-year grace period and ten years maturity (as of end-1995). Interest at 4 percent accrues from January 1, 1996.

G. Official Reserves

74. Net international reserves reached US\$28 million at the end of June 1996, compared with US\$8.2 million at the end of 1994. The Government's transfer of all official reserves to the CBA in December 1994 and the surrender of foreign exchange by enterprises facilitated the build-up in CBA reserves.²⁸ Gross reserves, at US\$121 million by June 1996, were equivalent to 1.8 months of imports of goods and nonfactor services.

²⁷The agreement relieved Armenia of any obligations for the former U.S.S.R.'s external debt by forgoing claims on its external assets. Other signatories of "zero-option" agreements were Azerbaijan, Belarus, Georgia, Kazakstan, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

²⁸The surrender requirement on export receipts was lowered from 50 percent to 30 percent on January 1, 1995 and was subsequently eliminated on April 1, 1995.

H. Exchange Rate Regime and Developments

75. As of end-June 1996, there were three foreign exchange auction markets--the Yerevan Stock Exchange, the Gumry Stock Exchange and the Adamand Stock Exchange. Since July 1995, however, banks can also trade foreign exchange outside these markets. Access through banks to these auctions for the private sector and public entities is unrestricted.

76. The official dram exchange rate remained stable during 1995, moving within a narrow margin of dram 400-410 per U.S. dollar. Since August 1995, the spread between the cash and noncash exchange rates has come down to negligible levels. The real effective exchange rate appreciated by 7 percent during 1995; however, it depreciated by 5 percent during the first half of 1996, reflecting a depreciation against currencies of countries of the former U.S.S.R. of 8 percent, and no change against other currencies.

I. Trade Policy

77. Armenia has pursued a liberal trade policy consisting of a simple and relatively open tariff-based import regime with a low uniform tariff; avoidance of quantitative restrictions on imports or exports; and the dismantling of clearing trade with countries of the former U.S.S.R. Armenia is currently applying for membership in the WTO.²⁹

Import tariffs and nontariff restrictions

78. The current tariff structure consists of a regime with two bands at 0 and 10 percent respectively, and became effective May 1, 1996, replacing the five-band tariff structure with rates of 0, 5, 10, 30 and 50 percent effective since January 1995. The zero rated products are limited to staple foods, agricultural products, fuel, essential pharmaceutical products, basic clothing, and raw materials used intensively in the production of exports. The effective tariff rate has remained fairly stable at about 2.6 percent from January 1995 to June 1996.

79. Tariff exemptions are currently extended to all goods that originate from countries of the former U.S.S.R.. Goods associated with humanitarian aid, medical equipment, meat, agricultural and dairy products, sugar, crude oil derivatives and selected industrial raw materials are also exempt from import tariffs.

80. Nontariff restrictions remain in place against the importation of weapons, nuclear materials, illegal drugs and other goods that pose health, security, and environmental hazards. Import licensing requirements are limited to medicines, which are subject to approval by the Ministry of Health, and agricultural chemicals, which are administered by the Ministry of Agriculture.

²⁹See Appendices III, IV and V.

Export taxes

81. Armenia maintains a 10 percent export tax on specific products payable by unregistered traders only, and customs fees of 0.3 percent on the declared value of exports and imports. However, there are no quantitative restrictions on exports except on certain artwork and jewelry; these are expected to be eliminated in order to comply with WTO regulations. Export licenses are required for textiles destined for the EU (in accordance with an agreement with the EU), and also for medicines, selected live animals and plants for reasons of public health.

VI. Analytical Aspects

82. This section focuses on some analytical aspects of the Armenian economy. While the results are to be interpreted with caution due to limitations of the data base, they nevertheless provide some valuable insights.

A. The Stance of Monetary Policy, 1994-96

83. The CBA has made substantial progress in implementing monetary policy and coordinating it with fiscal policy. This subsection presents the results of an investigation on the stance of monetary policy based on quarterly data from the final quarter of 1993 (the time of the introduction of the dram) to mid-1996.

Definition of measures

84. The objective of this exercise is to capture the medium term inflationary implications of the current stance of monetary policy in a relatively simple measure. The main macroeconomic variable used is reserve money, which closely reflects actions taken by the monetary authority itself. Denoting by Δy_t and Δrm_t the first difference of log GDP and of log reserve money, the rate of change in reserve money velocity can be defined as

$$\Delta V_t = \Delta y_t - \Delta rm_t$$

85. The next step is to calculate two different moving averages of ΔV_t . The first is an average of the current and past quarter; the second is a three quarter moving average, centered on the current period.³⁰ Denoting the first by ΔVB_t (backward-looking moving

³⁰The short length of the available time series precluded the use of a four-component backward-looking moving average, as in McCallum and Hargraves, "*A monetary impulse measure for medium-term policy analysis*", Staff Studies for the WEO, February 1996.

average), and the second by ΔVC_t (centered moving average), the monetary impulse measures are defined as follows.

$$MI_1 = \Delta rm_t + \Delta VB_t;$$

$$MI_2 = \Delta rm_t + \Delta VB_{t-1};$$

$$MI_3 = \Delta rm_t + \Delta VC_t.$$

86. These measures are rates of reserve money growth adjusted by smoothed reserve money velocity. In a sense, therefore, they represent growth rates of nominal GDP implied by the current stance of monetary policy as measured by changes in reserve money. Assuming that monetary policy should aim for very low inflation, these measures should be contrasted with levels of nominal GDP growth with approximate price stability.

87. The averaging of reserve money velocity attempts to account for regulatory changes and the emergence of new financial instruments, as well as the effects of currency substitution. The measures are not adjusted for changes in effective reserve requirements, because through May 1996 the reserve requirement varied little and was essentially uniform. Since the liquidity impact of the May 1996 changes is rather small initially, the bias for the second quarter of 1996 is considered relatively small.

88. Against this background, the charts summarizing the results can be interpreted as follows. In the current Armenian context, a monetary policy stance that aims for around 5 percent growth cannot be deemed expansionary. Thus, a 2.5 percent range around 5 percent—roughly the midpoint of actual average real growth in 1994-96—was taken to be the range of non-inflationary growth rates. If the monetary impulse measure is within this range, the monetary stance can be deemed neutral; if it is above, it is considered expansionary, and if it is below, contractionary.

Limitations of monetary impulse measures

89. The first major limitation is that the measure does not capture policy instruments and macroeconomic variables that act as substitutes for domestic credit; promissory notes, interenterprise arrears and informal credits extended outside the banking system. Second, the measure should use expected velocity, and none of the approaches tried can be deemed fully satisfactory in this respect. Consequently, several alternative measures are presented and the conclusions are based on the overall picture emerging from these, rather than on just one of them.³¹ Third, there are problems of data comparability over time due to structural changes in

³¹While the various measures yield somewhat different results for specific quarters, all three
(continued...)

definition (including in the compilation of GDP statistics), in the regulatory system, and in the economy over the period analyzed. In interpreting the results, one must account for the fact that the Armenian economy is growing at a significant rate—although the very policy actions that are measured have clearly influenced the actual outcome. This, together with data limitations,³² is the reason why a range, rather than a single level, is chosen to represent a neutral monetary stance.

Results

90. The most important conclusions that can be drawn from the measures are as follows (Table 11 and Chart 12):

Table 11. Armenia: Monetary Impulse Measures (in percent)			
	Backward-looking MA		Centered MA
	1-quarter lag	No lag	
1994			
Q3	...	...	-6.0
Q4	2.0	-5.8	-6.2
1995			
Q1	-4.4	-2.0	10.5
Q2	-21.9	-5.1	-4.0
Q3	-2.4	9.5	6.8
Q4	17.2	8.7	10.3
1996			
Q1	-3.6	-1.1	0.3
Q2	4.6	2.7	3.3

Source: Armenian authorities; and Fund staff estimates.

³¹(...continued)

unambiguously point to the significant shifts in the monetary stance described above.

³²Several known data problems exist, some of which may in part offset each other. For example, the likely downward bias in measurement of GDP growth due to the exclusion of part of private activities may partly compensate for the observed overall expansionary stance of macroeconomic policy during the period examined.

CHART 12
ARMENIA
MONETARY IMPULSE MEASURES
(In percent)

Source: Armenian authorities; and Fund staff estimates.

This page intentionally left blank

After displaying a strongly contractionary stance in the second quarter of 1995,

* monetary policy has become increasingly expansionary during the second half of the year, followed first by a mildly contractionary, and then neutral stance in the first half of 1996;

* in 1994, monetary policy was a counterbalance to the seasonality in output, while in 1995 it reinforced it, particularly in the final quarter;

* the monetary policy stance has been non-neutral in practically all quarters during the period analyzed;

* finally, comparing the stance of monetary policy with the conduct of fiscal policy, both have become smoother in the first half of 1996 than in the preceding period. In addition, they have acted less in concert during the second through the fourth quarter of 1995, than in 1996.

B. Seignorage and Inflation Tax

91. Armenia experienced very high inflation in 1993 and early 1994. This resulted in high levels of seignorage and inflation tax, which are quantified using a simple approach in this subsection.³³ Seignorage is defined as the amount of resources appropriated during a period by the Government³⁴ as a result of expanding nominal base money. Inflation tax is defined as the reduction in the real value of the outstanding stock of base money due to inflation over a specified period. The calculations are based on quarterly data covering the period from the fourth quarter of 1993, when the dram was introduced. Prior to this date, both seignorage and the inflation tax were also substantial, but they accrued to Russia, and were thus transfers of resources abroad, i.e. of a different nature. The results are to be interpreted with caution, due to the limitations of the data base available, and the lack of adjustment for changes in demand for base money. Nevertheless, they highlight an aspect of stabilization which is usually left outside the scope of formal analysis.

Seignorage, measured as a percentage of GDP, is defined as

$$S = (M_t - M_{t-1})/Y_t$$

³³One among the numerous possible references is Buitler, W. (1996), "*Aspects of Fiscal Performance in some Transition Economics under Fund-supported programs*" (forthcoming).

³⁴In this subsection, government is used in a generalized sense, and is understood to include the CBA.

where M_t is nominal base money in drams at end of period t and Y_t is nominal GDP in drams in period t . The inflation tax is defined as

$$- (M_{t-1}/P_t - M_{t-1}/P_{t-1})/(Y_t/P_t)$$

where P_t is end-period consumer price base index for period t .

The two definitions provide alternative measures of the magnitude of resources appropriated by the Government from the public holding base money. They differ to the extent there is real growth in GDP (lifting seignorage over inflation tax, *ceteris paribus*) and changes in base money velocity.

92. The results (Table 12 and Chart 13) show that following very high levels, both seignorage and the inflation tax declined to low, at times even negative levels by mid-1995, as stabilization took hold in the economy. On an annual basis, generalized fiscal financing through inflation as measured by seignorage dropped by a factor of six in 1995; and a further similar decline occurred in the first half of 1996. The magnitude of the decline in the inflation tax is comparable over the same period, reinforcing the view that the Armenian economy underwent a highly successful stabilization episode during 1994, which practically eliminated budgetary financing through inflation.

93. This decline in the inflation tax, coupled with the extraordinary decline in budgetary tax revenues, have left the Government no alternative but to proceed with drastic expenditure cuts that were implemented during the past two and a half years as discussed in the fiscal section above.

94. Seen from another angle, by showing a dramatic decline in the opportunity cost of holding drams, these results lend strong--albeit only indirect--support to the view that substantial reverse currency substitution is likely to have taken place in the Armenian economy.

CHART 13
ARMENIA
SEIGNORAGE AND INFLATION TAX
(In percent of GDP)

Source: Armenian authorities; and Fund staff estimates.

This page intentionally left blank

Table 12. Armenia: Seigniorage and Inflation Tax, 1993-96					
	Nominal GDP (in mln dram)	Reserve Money (in mln dram)	CPI 1994 Jan=100	Seigniorage (in percent of GDP)	Inflation Tax (in percent of GDP)
1993					
Q4	2,252	1,590	55	...	...
1994					
Q1	6,594	4,461	171	43.5	51.2
Q2	22,772	7,774	489	14.5	36.4
Q3	42,991	9,861	530	4.9	1.5
Q4	114,691	14,836	1,087	4.3	9.1
1995					
Q1	122,215	23,017	1,152	6.7	0.7
Q2	122,737	22,608	1,338	-0.3	3.0
Q3	130,049	23,596	1,248	0.8	-1.2
Q4	147,284	29,464	1,435	3.9	2.4
1996					
Q1	152,770	27,532	1,540	-1.2	1.4
Q2	157,523	29,404	1,693	1.2	1.7

Source: Armenian authorities; and Fund staff estimates.

C. Dollarization and Reverse Currency Substitution

95. The ratio of foreign currency deposits to broad money is commonly used as a measure of the degree of currency substitution in an economy. This rate was relatively high in 1994: from 45 percent in January it peaked at 63 percent in May, after which it began to decline, reaching 20 percent by September 1995 (Chart 14). The declining trend in the foreign currency deposit ratio or 'reverse currency substitution' reflected the stabilization that was taking hold in the Armenian economy, as evidenced from the decline in average monthly inflation declined from 28 percent in 1994 to 2.3 percent in 1995. The value of the dram stabilized in the foreign exchange market, fluctuating within a narrow band of 400-405 in 1995.

96. While the behavior of the foreign currency to broad money ratio until September 1995 is in line with most traditional models of currency substitution, it has remained relatively constant since then, in spite of a declining rate of inflation and stable domestic currency.³⁵

97. The following model proposed by Ramirez-Rojas (1985)³⁶ and Rojas-Suarez (1992)³⁷ was estimated, given the limited availability of data:

$$FC_t = \alpha + \beta trend + \gamma FC_{t-1} + \delta E_{pt} + u_t$$

where 'trend' represents a deterministic time trend, FC_t denotes the ratio of foreign currency deposits to broad money and is the commonly used measure of currency substitution; FC_{t-1} denotes the stock adjustment variable; E_{pt} denotes the expected change in the domestic currency vis-à-vis the dollar and u_t is the error term. Monthly data from January 1994 to June 1996 was used, giving 30 observations. Following Ramirez-Rojas (1985) the expected exchange rate is measured by the difference in the CPI-based inflation rates between the U.S. and Armenia. The following estimates for the parameters were obtained:

$$FC_t = 0.099 - 0.017 * trend + 0.669 * FC_{t-1} + 0.009 E_{pt} + u_t$$

$$\overline{R^2} = 0.947; \text{ Durbin's } h - \text{statistic} = 0.87$$

the '**' denoting significance of the coefficient at 95 percent level of confidence.^{38 39} The

³⁵Average monthly inflation during the first six months of 1996 was 0.9 percent, and the dram fluctuated between 403-409 per U.S. dollar during this period.

³⁶C.L. Ramirez-Rojas, "Currency Substitution in Argentina, Mexico and Uruguay", Staff Papers, December 1985.

³⁷L. Rojas-Suarez, "Currency Substitution and Inflation in Peru," *Revista de Análisis Económico*, June 1992.

³⁸All the time series were tested for non-stationarity using the Dickey-Fuller tests; the adjusted t-statistics indicated that the time series do not have unit roots.

³⁹The t-statistics for the coefficients are -1.7, -2.8, 5.5, and 0.4, respectively.

CHART 14
ARMENIA
FOREIGN CURRENCY DEPOSITS, BROAD MONEY, INFLATION, AND EXCHANGE RATE

Source: Armenian authorities.

This page intentionally left blank

magnitude of Durbin's h-statistic indicates that the errors are serially independent.⁴⁰

98. The large coefficient on the lagged stock adjustment variable indicates the inertia in the process of currency substitution indicating that people adjust their holdings of foreign currency only slowly. The low coefficient of E_{pt} indicates that changes in exchange rate expectations have not had much effect on the degree of currency substitution, further reinforcing the inertia hypothesis that actual holdings of foreign currency in a period depend largely on holdings during the previous period.

99. The relative stability of foreign currency deposits in Armenia may simply reflect the risk averse behavior of individuals in a situation under blockade or it could reflect the more general hypothesis of a lack of credibility in the authorities' commitment to price stability. Prices have been declining and the CBA has reiterated its position time and again that price stability remains its primary objective. While it is difficult to surmise people's faith in the changed role of the central bank, the inertia in foreign currency holdings may reflect people's expectation that inflation will not remain at its current low level and that the domestic currency may depreciate. There may be two underlying reasons for this. First, as pointed out earlier, the Armenian CPI is highly skewed in terms of measuring the inflation in food items (which carry a weight of 66 percent) and as such does not capture adequately prices of newly available goods and services, the demand for and prices of which appear to be increasing. Second, the fragility of the banking system may give rise to an expectation that the central bank will try to save some of these banks by injecting domestic money (having already closed several small banks) which is likely to cause a rise in inflation and stronger depreciation of the domestic currency. Both these factors could explain the apparent reluctance of individuals to reduce their foreign currency holdings beyond a certain level. Therefore, it appears that although remarkable progress has been made with respect to price stability, lowering fiscal deficits, and improved monetary management, more fundamental changes in the financial sector are required to make reforms more credible.

⁴⁰Durbin's alternative test also indicated that the errors are serially independent.

Table 1. Armenia: Gross Domestic Product by Origin, 1994 - 96

	1994	1995	1996 Jan-Jun
(In current prices, millions of drams)			
Gross domestic product	187,049	522,285	216,512
Industry	54,495	164,834	101,622
Agriculture	81,364	167,475	38,917
Construction	12,508	48,368	12,573
Transport and communication 1/	2,765	17,687	5,095
Wholesale and retail trade	8,314	42,927	17,102
Other	27,603	80,994	41,203
(At 1994 prices, millions of drams)			
Gross domestic product	187,049	199,956	...
Industry	54,495	55,910	...
Agriculture	81,364	85,450	...
Construction	12,508	11,783	...
Transport and communication 1/	7,839	8,564	...
Wholesale and retail trade	8,314	14,568	...
Other	22,529	23,681	...

Source: State Department of Statistics; and Fund staff estimates.

1/ In 1994-95, includes passenger transport.

Table 2. Armenia: Monthly Consumer Price Index and Weights of Different Items, 1995-1996
(Base for CPI: December 1994 = 100)

	All Items	Food	Alcohol & Tobacco	Clothing & Footwear	Household Goods	Recreation, Entertainment & Education	Medical Care	Rent, Fuel & Power	Transportation and Communications	Misc. Goods and Services
1995										
<u>Weights</u>	100.0	69.9	5.7	7.6	3.7	1.6	1.1	2.6	5.9	1.9
<u>Consumer Price Index</u>										
January	103.9	103.8	102.5	105.2	100.1	105.2	110.2	99.1	103.4	118.2
February	104.6	104.5	113.7	106.3	92.8	107.9	115.7	92.7	100.2	122.2
March	105.9	105.9	114.4	107.7	95.6	110.6	118.6	90.1	98.7	130.8
April	113.4	114.1	109.2	108.7	95.8	114.5	125.1	115.6	116.3	138.2
May	122.2	124.4	104.8	109.1	96.5	116.8	128.9	115.6	140.6	144.0
June	123.0	124.0	102.3	110.9	97.1	121.2	136.6	136.4	142.9	152.1
July	117.3	116.0	98.9	111.3	98.2	124.0	140.2	134.4	144.2	155.1
August	114.9	111.8	103.0	111.4	103.2	127.6	140.2	134.6	143.7	158.9
September	114.7	110.7	105.8	112.8	103.9	143.2	141.3	137.9	144.1	159.8
October	119.3	113.2	113.3	114.6	109.6	149.9	150.6	185.7	151.9	165.9
November	122.6	116.7	118.7	116.3	111.4	153.2	152.1	187.9	153.1	168.2
December	131.9	126.0	119.6	119.0	108.4	156.7	152.7	275.1	157.8	175.6
1996										
<u>Weights</u>	100.0	65.5	3.7	7.4	3.1	1.6	1.0	6.3	7.8	3.7
<u>Consumer Price Index</u>										
January	136.6	132.9	119.9	119.1	107.9	156.9	156.2	272.9	157.7	174.6
February	141.3	139.3	118.1	121.2	112.9	160.2	154.2	270.4	156.4	176.7
March	141.5	139.7	115.6	120.4	112.5	162.4	154.2	268.8	158.6	174.7
April	141.0	138.9	114.1	119.8	112.5	163.6	154.8	275.0	157.6	175.2
May	141.0	138.3	112.9	119.0	112.9	165.4	155.9	275.8	166.0	171.7
June	139.2	135.8	111.8	117.8	111.5	166.4	152.8	276.6	167.0	169.8
July	134.6	128.3	113.4	118.1	111.7	168.0	153.1	273.9	174.7	168.0

Table 3. Armenia: Average Monthly Wages in the State Sector, 1994-96 1/
(Current drams)

	1994	1995	1996 Jan-Jun
Total	1,720	5,910	8,998
Material sphere	2,257	8,370	12,113
Non-Material sphere	1,056	3,282	6,200
of which:			
Budgetary sphere	863	3,077	5,570
By branch:			
Industry	2,963	7,503	13,053
Agriculture	1,015	5,681	6,328
Forestry	1,171	3,803	4,962
Transport	4,720	9,422	14,767
Communications	2,891	10,467	17,019
Construction	1,550	12,306	13,698
Trade	1,426	4,599	6,358
Information and computer services	1,121	4,698	8,550
Other material branches	893	3,476	6,284
Communal services	1,214	5,480	8,715
Health	883	3,515	5,802
General administration and management	1,116	2,928	8,165
Education, culture and art	729	2,684	4,817
Science	1,529	5,140	7,728
Finance and insurance	8,592	22,415	20,243

Source: State Department of Statistics.

1/ Budgetary and non-budgetary state sector only.

Table 4. Armenia: Labor Force, Employment, and Unemployment, 1994-96

	1994	1995	1996	
			Q1	Q2
(In thousands)				
Potential labor force 1/	2,007	2,029	2,035	2,037
Total employed	1,488	1,456	1,406	1,395
Registered unemployed	106	106	137	146
Actual labor force 2/	1,594	1,562	1,543	1,541
Employment by sector	1,488	1,456	1,406	1,395
State sector	794	749	706	689
Private sector 3/	694	707	700	706
Material sphere	1,087	1,057	1,025	1,017
Industry	365	352	343	342
Construction	97	96	92	91
Agriculture	502	491	475	472
Forestry	2	1	1	1
Transport and communications	30	27	26	25
Wholesale & retail trade, and catering	64	63	62	61
Other material sphere	27	27	26	25
Nonmaterial sphere	411	399	381	378
Education, culture, art	181	178	168	167
Science	25	24	23	23
Health, physical culture, and social welfare	84	82	78	76
Housing and personal services	58	57	56	56
General administration	30	29	28	28
Other nonmaterial sphere	33	29	28	28
<u>Memorandum items</u>				
			(In percent)	
Employed in state sector 4/	50	48	46	45
Employed in private sector 5/	44	45	45	46
Unemployment rate 6/	7	7	9	9
Unemployment rate 7/	5	5	7	7

Source: State Department of Statistics.

1/ Defined as working-age population comprising everyone from 16 years to 60 years of age (excluding students). The SDS is planning to undertake surveys similar to BLS in U.S.A. to calculate the actual labor force as those actively seeking for work.

2/ Defined as total employed plus those registered as unemployed.

3/ Includes farm and cooperative sector.

4/ Total employed in state sector as percent of actual labor force.

5/ Total employed in private sector as percent of actual labor force.

6/ Registered unemployed as percent of actual labor force.

7/ Registered unemployed as percent of potential labor force.

Table 5. Armenia: Budgetary Sector Employment, 1994-96
(At end of period, in thousands)

	1994	1995	1996	
			Q1	Q2
Total	407	380	372	357
of which:				
Education, culture, art	181	173	171	163
Science	23	15	14	10
Health, physical culture, social welfare	81	70	71	69
General administration	30	18	18	14
Other (including military)	92	104	97	101

Source: Armenian authorities.

Table 6. Armenia: Production of Selected Industrial Commodities, 1994-96

	1994	1995	1996 Jan-Jun
Electric Energy (mn. kw/year)	5,673	5,561	3,124
Cable (km.)	640	992	402
Metal Cutting Equipment (number)	739	449	284
Car Tires ('000)	120	93	43
Cement ('000 tons)	122	228	120
Carpets ('000 sq. m.)	37	29	13
Wine ('000 litres)	2,271	1,215	298
Cognac ('000 litres)	513	553	115

Source: State Department of Statistics.

Table 7. Regulated Prices for Main Commodities and Services, 1994-96

Item	Unit	1994	1995							1996						
		Dec	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
(In current drams)																
Transport (bus)	1 trip	5	25	25	25	25	25	25	35	35	35	35	50	50	50	
Electricity	1 kWh	10	10	10	10	12	12	12	12	12	12	14	14	14	14	
Telephone	monthly	10	101	101	101	101	101	101	101	101	101	101	101	101	101	
Rent	monthly/sq. m	1	1	1	1	1	1	8	8	8	8	8	8	8	8	
Water	1 cubic m															
Yerevan		...	11	11	15	15	15	15	15	15	15	15	15	15	15	
Other regions		...	11	11	16	16	16	16	16	16	16	16	16	16	16	
Sewage	monthly	..	1	1	4	4	4	4	4	4	4	4	4	4	4	
Garbage	monthly	12	720	720	720	720	720	720	720	720	720	720	720	720	720	
Heating	monthly/sq. m	...	360	...	...	...	657	657	657	657	657	657	657	657	657	

Source: Armenian authorities.

Table 8. Armenia: Pension Recipients and Average Pensions

	1995		1996	
	Jun	Dec	Mar	Jun
Number of Pension Recipients				
Total	643,038	641,852	628,454	615,055
Old age pensioners	470,706	458,989	408,772	358,554
Handicapped	105,417	111,049	110,121	109,193
Lost provider	47,198	35,822	36,018	36,214
Other	19,717	35,992	73,543	111,094
Average Pensions (In drams per month)				
Total	2,312	2,359	2,567	2,775
Old age pensioners	2,259	2,308	2,548	2,788
Handicapped	2,247	2,411	2,457	2,503
Lost provider	3,245	3,007	3,154	3,300
Other	2,189	1,547	2,198	2,849

Source: Armenian authorities.

Table 9. Armenia: Pension and Employment Fund, 1994-1996 1/

	1994	1995				1995	1996	
	Year	Q1	Q2	Q3	Q4	Year	Q1 Actual	Q2 Prel
(In millions of dram)								
Total revenue and grants	3,638	2,781	3,605	3,838	4,412	14,636	3,999	4,880
Total revenue	3,638	2,781	3,605	3,838	4,412	14,636	3,999	4,880
Contributions from payroll	3,618	2,675	3,485	3,691	4,228	14,078	3,865	4,588
State payroll	905	672	896	1,080	1,083	3,731	984	1,321
From employer	802	653	860	1,050	1,045	3,608	950	1,283
From employee	103	19	36	30	37	123	33	39
Enterprise payroll	2,713	2,003	2,589	2,611	3,145	10,348	2,881	3,267
Self-employed and agriculture	20	67	58	27	58	210	56	170
Other Revenue	0	39	62	121	127	349	78	122
Total expenditure	3,418	3,408	3,287	4,275	4,648	15,617	4,001	4,842
Pensions	3,169	3,354	3,133	3,987	4,152	14,626	3,928	4,178
Unemployment compensations	70	94	129	253	205	680	151	150
Interest on bank credit	0	0	0	0	0	0	0	0
Errors and omissions	180	-40	25	35	291	311	-78	514
Overall deficit (accrual)	220	-627	318	-436	-236	-981	-2	38
Net change in noninterest arrears	0	0	0	0	0	0	0	0
Overall deficit (cash)	220	-627	318	-436	-236	-981	-2	38
Financing	-219	627	-318	436	236	980	2	-38
Central Bank of Armenia	-576	301	-334	274	222	463	66	-35
Rest of banking system	-153	-74	16	162	-36	68	-64	-3
State government	510	400	0	0	50	450	0	0

Sources: Armenian authorities, and Fund staff estimates.

1/ The Pension Fund was created in August 1991, and was augmented in March 1992 by the incorporation of the Employment Fund.

Table 10. Armenia: Pension and Employment Fund, 1994-1996

	1994	1995				1995	1996	
	Year	Q1	Q2	Q3	Q4	Year	Q1 Actual	Q2 Prel
(In percent of GDP)								
Total revenue	1.9	2.3	2.9	2.4	3.0	2.8	2.6	3.1
Total revenue	1.9	2.3	2.9	2.4	3.0	2.8	2.6	3.1
Contributions from payroll	1.9	2.2	2.8	2.3	2.9	2.7	2.5	2.9
State payroll	0.5	0.5	0.7	0.7	0.7	0.7	0.6	0.8
From employer	0.4	0.5	0.7	0.7	0.7	0.7	0.6	0.8
From employee	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise payroll	1.5	1.6	2.1	1.6	2.1	2.0	1.9	2.1
Contributions from self-employed	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
 Total expenditure	1.8	2.8	2.7	2.7	3.2	3.0	2.6	3.1
Pensions	1.7	2.7	2.6	2.5	2.8	2.8	2.6	2.7
Unemployment compensation	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Interest on bank credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.1	0.0	0.0	0.0	0.2	0.1	-0.1	0.3
 Overall deficit (accrual)	0.1	-0.5	0.3	-0.3	-0.2	-0.2	0.0	0.0
 Net change in noninterest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
 Overall deficit (cash)	0.1	-0.5	0.3	-0.3	-0.2	-0.2	0.0	0.0
 Financing	-0.1	0.5	-0.3	0.3	0.2	0.2	0.0	0.0
Central Bank of Armenia	-0.3	0.2	-0.3	0.2	0.2	0.1	0.0	0.0
Rest of banking system	-0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0
State government	0.3	0.3	0.0	0.0	0.0	0.1	0.0	0.0

Sources: Armenian authorities; and Fund staff calculations.

Table 11. Armenia: Unemployment Benefits, 1994-96

	1994	1995	1996	
			Q1	Q2
Average benefit (drams per month)	299	1,358	2,100	2,100
Official unemployment (no. of people)	102,608	102,842	139,400	149,400
Benefit recipients (no. of people)	22,516	34,610	43,100	50,000
Percentage of officially unemployed receiving benefits (in percent of official unemployed)	22	34	31	33

Sources: Armenian authorities; and Fund staff estimates.

Table 12. Armenia: Banking Sector Loans, 1994-96

	1994	1995				1996				
	December	March	June	September	December	January	February	March	April	May
(In millions of dram)										
Industry	944	1,884	2,801	3,576	2,742	2,590	2,860	4,709	4,179	4,215
Agriculture and processing industry	1,948	2,164	1,673	1,410	865	706	784	677	756	653
Construction	53	90	123	90	211	213	207	145	140	129
Transport and communications	26	39	19	42	42	38	109	108	109	163
Supply and trade	429	309	564	648	478	385	315	295	258	249
Private sector 1/	2,168	3,362	4,314	4,136	5,101	4,651	4,721	4,624	4,514	4,187
Other sectors 2/	4,256	3,753	4,429	4,871	5,539	4,764	5,349	4,560	4,353	4,678
Arrears to banks 3/	10,914	12,843	15,527	17,675	21,889	23,551	23,874	23,452	24,897	16,070
Long-term investments	3	0.36	23	95	94	94	97	97	97	97
Total	20,741	24,445	29,475	32,543	36,960	36,992	38,317	38,667	39,302	30,441

(In percent of total loans)

Industry	5	8	10	11	7	7	7	12	11	14
Agriculture and processing industry	9	9	6	4	2	2	2	2	2	2
Construction	—	—	—	—	1	1	1	—	—	—
Transport and communications	—	—	—	—	—	—	—	—	—	1
Supply and trade	2	1	2	2	1	1	1	1	1	1
Private sector 1/	10	14	15	13	14	13	12	12	11	14
Other sectors 2/	21	15	15	15	15	13	14	12	11	15
Arrears to banks 3/	53	53	53	54	59	64	62	61	63	53
Long-term investments	—	—	—	—	—	—	—	—	—	—
Total	100	100	100	100	100	100	100	100	100	100

Source: Central Bank of Armenia

1/ Includes households.

2/ Includes foreign exchange loans.

3/ Includes overdue loans and overdue interest.

Table 13. Armenia: Arrears to Banks

	1994	1995				1996		
	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Apr.	May
(In millions of drams)								
Total	10,914	12,843	15,527	17,675	21,889	23,452	24,897	16,070
Arrears on Bank Loan Repayments	4,730	4,407	5,197	5,765	7,763	8,893	10,143	6,378
Arrears on Interest Payments to Banks	6,184	8,436	10,330	11,910	14,126	14,559	14,754	9,692
(Percentage change from previous quarter)								
Total	40.0	17.7	20.9	13.8	23.8	7.1	6.2	-35.5
Arrears on Bank Loan Repayments	96.3	-6.8	17.9	10.9	34.7	14.6	14.1	-37.1
Arrears on Interest Payments to Banks	12.2	36.4	22.5	15.3	18.6	3.1	1.3	-34.3

Source: Central Bank of Armenia.

Table 14. Armenia: Commercial Banks' Interest Rates for Loans and Deposits in Dram, US\$, and Russian Rubles

	1995												1996						
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.
(Simple monthly interest rate for period)																			
Dram																			
One-month																			
Deposit	8.00	8.00	5.00	3.83	3.92	3.00	6.83	...	3.00	4.30	3.92	5.38	2.92	2.58	3.67	4.67	2.92	3.00	3.00
Loan	19.50	19.50	12.30	9.56	8.70	8.88	9.38	7.35	6.48	6.47	7.52	7.42	5.00	7.92	7.08	5.25	5.25	6.75	6.25
Three-month																			
Deposit	8.50	8.50	7.10	5.69	5.57	3.42	5.56	4.35	4.19	2.87	4.33	4.06	4.25	5.25	3.42	5.50	5.58	3.91	4.00
Loan	18.60	18.60	13.30	11.25	9.27	9.19	8.31	6.58	7.00	6.90	6.48	6.54	2.82	4.92	6.58	7.50	6.58	7.25	5.50
Six-month																			
Deposit	11.00	11.00	9.90	5.48	7.27	4.23	6.98	5.58	4.79	2.83	3.83	3.31	3.30	3.25	3.58	3.33	5.00	3.50	3.42
Loan	19.00	19.00	15.40	13.86	9.18	7.15	7.63	5.71	4.11	6.57	6.77	5.11	8.58	7.92	6.00	4.35	4.25	4.83	4.42
Russian ruble																			
One-month																			
Deposit	9.50	9.50	...	...	...	...	...	...	...	6.80	6.67	5.50	3.80	3.83	3.67	3.83	3.83	3.83	3.83
Loan	18.00	18.00	...	17.42	19.85	20.00	...	...	...	...	...	...	...	...	10.50	10.00	...	9.33	11.50
Three-month																			
Deposit	12.20	12.20	10.00	5.81	5.68	6.10	5.58	5.85	5.60	6.20	6.10	6.08	7.30	6.00	3.58	4.16	4.25	3.42	3.67
Loan	19.00	19.00	17.00	17.03	14.96	15.00	17.17	...	...	...	...	...	7.17	...	...	...	11.00	...	9.33
Six-month																			
Deposit	12.50	12.50	10.00	7.42	7.35	6.25	6.00	6.58	7.42	7.42	7.42	4.17	...	4.17	4.17	4.16	4.17	4.17	4.17
Loan	19.50	19.50	17.00	10.08	...	17.17	20.00	...	...	...	...	...	...	5.00	...	8.00	...	...	...
U.S. Dollar																			
One-month																			
Deposit	2.50	2.50	1.50	3.19	1.92	1.23	1.52	1.72	1.54	2.47	2.98	2.35	1.60	2.17	3.17	1.67	2.00	2.33	1.92
Loan	8.00	8.00	7.00	9.36	7.35	7.75	5.48	5.35	5.83	7.13	7.83	6.27	4.80	3.50	5.50	6.00	6.83	4.33	5.17
Three-month																			
Deposit	2.80	2.80	1.90	3.31	2.33	1.75	2.52	2.25	2.29	3.80	2.73	2.65	2.40	3.17	3.25	2.75	2.17	2.58	2.17
Loan	7.50	7.50	9.00	9.86	5.25	5.71	5.13	5.46	5.71	5.30	5.90	5.63	4.00	4.83	6.42	4.33	5.71	5.83	5.42
Six-month																			
Deposit	2.90	2.90	2.60	3.69	3.28	2.15	2.96	2.63	2.81	2.62	2.38	1.98	2.30	3.17	2.83	2.92	2.25	3.50	3.42
Loan	7.50	7.50	9.00	10.08	5.83	4.39	4.10	2.28	3.21	2.97	3.58	3.52	2.30	4.08	3.08	3.75	5.00	5.92	4.42

Source: Central Bank of Armenia

Table 15. Armenia: Commodity Composition of Trade, 1994-96

Product categories	1994	1995				1995	1996		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Jan-Jun
(In percent of total)									
Total Exports 1/	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food products	5.5	1.1	1.8	6.1	7.5	5.0	8.1	2.9	5.0
Mineral products	8.3	2.1	9.2	16.2	9.5	10.6	8.4	9.8	9.2
Chemicals	5.2	5.7	5.7	10.6	4.0	6.7	2.5	5.0	4.0
Leather, fur	0.4	0.2	0.1	0.8	0.6	0.5	0.9	0.3	0.5
Wood and wood products	0.1	0.1	0.6	0.4	0.8	0.5	0.1	0.2	0.2
Textile and textile products	7.1	4.8	15.1	4.7	5.1	7.0	4.5	3.0	3.6
Shoes, hats, and umbrellas	7.7	0.1	3.2	3.6	0.5	2.0	1.3	0.2	0.6
Jewelries	34.4	42.1	31.8	23.9	38.9	33.1	40.5	31.9	35.4
Non-precious metals	5.3	7.0	11.5	12.1	12.6	11.5	19.0	25.0	22.6
Machinery and equipment	16.8	28.2	9.9	13.9	13.1	14.7	10.8	16.5	14.2
Devices	0.6	3.2	0.6	1.4	1.3	1.4	1.5	0.8	1.1
Miscellaneous products	8.5	5.4	10.5	6.3	6.1	7.0	2.4	4.4	3.6
Total Imports 2/	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food products	42.1	38.3	37.7	26.7	33.3	33.4	39.7	41.3	40.5
Mineral products (incl. gas and fuel)	40.4	31.1	37.0	36.5	29.8	33.1	30.8	19.7	25.2
Chemicals	2.2	3.5	7.3	14.3	8.7	8.8	6.0	3.1	4.5
Leather, fur	0.0	0.0	0.0	0.0	0.1	0.0	0.3	0.1	0.2
Wood and wood products	0.0	0.3	1.3	2.8	0.9	1.3	2.5	1.1	1.8
Textile and textile products	1.5	1.5	0.8	1.1	1.2	1.2	2.5	1.6	2.0
Shoes, hats, and umbrellas	0.0	0.2	0.0	0.1	0.1	0.1	0.2	0.2	0.2
Jewelries	8.9	3.2	6.2	9.3	0.2	4.3	7.1	17.7	12.5
Non-precious metals	0.9	0.4	3.8	2.6	15.4	6.8	0.6	0.8	0.7
Machinery and equipment	2.9	18.9	3.5	5.0	2.6	6.8	6.4	3.2	4.8
Devices	0.4	1.3	0.5	0.8	4.7	2.2	0.8	0.4	0.6
Miscellaneous products	0.7	1.3	1.9	0.8	3.0	1.9	3.1	10.8	7.0

Source: State Department of Statistics.

1/ Does not include price adjustments associated with clearing exports to Turkmenistan.

2/ Does not include imports associated with humanitarian aid.

Table 16. Armenia: Imports

	1994 Year	1995				1995 Year	1996		
		Q1	Q2	Q3	Q4		Q1	Q2	Jan-Jun
(In millions of U.S. dollars)									
TOTAL IMPORTS	491.2	142.7	121.4	174.9	233.9	672.2	178.3	182.6	360.9
Wheat, flour, and rice	71.0	24.7	10.5	7.1	17.9	59.9	10.3	16.9	27.2
Volume (thousand tons)	491.6	157.2	86.7	44.9	116.8	405.6	42.9	85.0	127.9
Price (dollars per ton)	144.3	157.2	121.1	158.0	153.4	147.7	240.0	198.6	438.6
Imports funded by official transfers	5.7	1.5	11.8	9.8	6.5	29.6	5.4	5.3	10.7
Equipment	5.7	1.5	11.8	9.8	6.5	29.6	5.4	5.3	10.7
Others (including other food)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Energy	159.9	44.8	44.9	64.2	69.3	223.2	47.8	33.6	81.3
Natural gas	69.4	26.4	26.9	41.4	34.5	129.2	25.2	11.2	36.4
Volume (mcm/day)	2.4	3.7	3.7	5.7	4.7	4.4	3.5	1.6	5.1
Volume (mcm)	868.0	329.9	336.6	517.8	430.7	1614.9	315.2	139.9	455.0
Price (per tcm)	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	160.0
Petrol Fuels	85.4	18.3	17.8	22.6	34.7	93.5	22.5	22.2	44.7
Volume (1000 tons)	361.4	72.0	74.1	84.4	118.7	349.2	86.0	77.1	163.1
Price (per ton)	236.2	254.5	240.7	268.1	292.7	267.8	261.7	287.7	549.3
Other energy products	5.1	0.1	0.1	0.1	0.1	0.5	0.0	0.2	0.2
Other imports	37.1	32.1	24.7	26.7	29.4	112.8	19.4	11.7	31.1
Imports covered by Customs	127.6	33.0	23.0	61.4	97.4	214.8	95.0	98.7	193.7
Imports by travelers	41.9	21.6	15.5	35.6	37.6	110.3	35.0	42.0	77.0
Gold, jewelry	0.0	4.6	7.5	20.4	30.0	62.5	11.0	16.6	27.6
Others	85.7	6.8	0.0	5.4	29.9	42.1	49.0	40.1	89.1
Other humanitarian	0.0	6.6	6.6	5.8	13.3	32.3	0.5	16.5	17.0

Sources: Department of Statistics; and Fund staff estimates.

Table 17. Armenia: Grain Imports

	1994	1995				1996	1996		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Jan-Jun
(In millions of U.S. dollar)									
TOTAL GRAINS (Feb)	71.9	24.2	10.5	7.1	17.9	89.9	10.3	16.9	27.2
Volume (thousand tons)	491.6	157.2	86.7	44.9	116.8	485.6	42.9	85.0	127.9
Volume (wheat-equiv. thousand tons)	821.9	166.9	87.5	46.2	123.7	424.4	47.9	91.7	139.6
Price (dollars per ton)	144.3	157.2	121.1	158.0	153.4	147.7	240.0	198.6	438.6
Transportation	23.5	8.2	3.5	1.7	5.7	19.6	1.8	3.6	5.4
U.S.	10.4	5.5	2.4	1.2	4.6	13.7	1.7	1.5	3.2
E.U.	9.5	1.8	0.3	0.5	1.2	3.8	0.1	1.7	1.8
ECCHO	2.0	0.8	0.8	0.0	0.0	1.6	0.0	0.0	0.0
Other official	1.5	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Private	0.1	0.1	0.0	0.1	0.3	0.5	0.0	0.0	0.0
Costs in dollars per ton	48.0	48.0	48.0	48.0	48.0	48.0	42.0	42.0	84.0
Wheat	47.1	17.4	9.0	6.0	12.5	44.8	6.1	11.6	17.7
Volume (thousand tons)	378.6	126.5	82.1	40.3	95.4	344.3	26.9	64.0	90.9
Price (dollars per ton)	140.8	150.6	147.8	152.3	148.7	149.8	350.8	172.2	522.9
U.S.	19.1	6.0	9.0	3.5	10.3	28.8	5.0	5.0	10.0
Volume (thousand tons)	190.7	53.4	82.1	24.4	81.2	241.1	24.0	24.0	48.0
Price (dollars per ton)	100.0	112.4	109.6	143.4	126.8	123.1	208.0	208.0	416.0
E.U.	24.3	11.2	0.0	2.3	2.1	15.5	1.1	5.0	6.0
Volume (thousand tons)	162.1	72.0	0.0	14.7	13.6	100.3	2.9	30.0	32.9
Price (dollars per ton)	149.0	155.6	150.0	156.5	154.4	154.1	379.3	165.0	544.3
ECCHO	2.8	0.0	0.0	0.0	0.0	0.0	0.0	1.7	1.7
Volume (thousand tons)	19.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	10.0
Price (dollars per ton)	149.0	149.0	149.0	149.0	149.0	149.0	379.3	165.0	544.3
Other official	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Volume (thousand tons)	6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Price (dollars per ton)	149.0	149.0	149.0	149.0	149.0	149.0	379.3	165.0	544.3
Private	0.0	0.2	0.0	0.2	0.1	0.5	0.0	0.0	0.0
Volume (thousand tons)	0.0	1.06	0.0	1.2	0.6	2.9	0.0	0.0	0.0
Price (dollars per ton)	149.0	188.7	180.0	166.7	163.9	174.8	379.3	165.0	544.3
Wheat flour	19.1	6.2	0.9	0.9	5.1	13.3	3.8	5.0	8.8
Volume (thousand tons)	91.0	29.1	2.5	4.0	20.8	86.4	15.0	20.0	35.0
Price (dollars per ton)	220.2	237.7	236.8	270.7	285.8	287.7	237.7	236.8	474.5
U.S.	0.7	1.2	0.1	0.0	0.7	2.0	3.8	2.5	6.3
Volume (thousand tons)	3.3	4.7	0.4	0.0	2.6	7.7	15.0	10.0	25.0
Price (dollars per ton)	214.0	255.3	250.0	255.0	269.2	287.4	255.3	250.0	505.3
E.U.	7.9	5.1	0.4	0.4	2.3	8.6	0.0	2.5	2.5
Volume (thousand tons)	36.8	21.4	1.6	1.4	8.2	32.6	0.0	10.0	10.0
Price (dollars per ton)	214.0	238.3	250	285.7	282.8	264.2	238.3	250.0	488.3
ECCHO	4.8	0.0	0.4	0.0	0.2	0.3	0.0	0.0	0.0
Volume (thousand tons)	22.4	0.0	0.5	0.0	0.8	1.3	0.0	0.0	0.0
Price (dollars per ton)	214.0	214.0	200.0	214.0	250.0	219.5	214.0	200.0	414.0
Other official	5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Volume (thousand tons)	24.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Price (dollars per ton)	214.0	214.0	214.0	214.0	214.0	214.0	214.0	214.0	428.0
Private	0.5	0.4	0.0	0.5	1.9	2.5	0.0	0.0	0.0
Volume (thousand tons)	2.0	1.5	0.0	1.3	4.6	7.4	0.0	0.0	0.0
Price (dollars per ton)	245.0	266.7	270.0	384.6	413.0	333.6	266.7	270.0	536.7
Rice									
U.S.	4.8	0.6	0.6	0.2	0.3	1.8	0.4	0.3	0.7
Volume (thousand tons)	22.0	1.6	2.1	0.6	0.6	4.9	1.0	1.0	2.0
Price (dollars per ton)	218.0	375.0	285.7	322.6	500.0	370.8	375.0	285.7	660.7

Sources: Ministry of Food; and Fund staff estimates and projections.

Table 18. Armenia: Energy Imports

	1994	1995				1995	1996		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Jan-Jun
(In millions of U.S. dollars)									
TOTAL	159.9	44.8	44.9	64.2	69.3	223.2	47.8	33.6	84.0
Natural Gas (Turkmenistan)	69.4	26.4	26.9	41.4	34.5	129.2	25.2	11.2	36.4
Volume (mcm/day)	2.4	3.7	3.7	5.7	4.7	4.4	3.5	1.6	2.5
Volume (mcm)	868.0	329.9	336.6	517.8	430.7	1614.9	315.2	139.9	455.0
(% change)	8.4	55.0	2.0	53.8	-16.8	86.1	-26.8	-55.6	
Price (per tcm)	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Transport cost (per tcm)	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Petrol Fuels (Russian)	85.4	18.3	17.8	22.6	34.7	93.5	22.5	22.2	47.4
Volume (1000 tons)	361.4	72.0	74.1	84.4	118.7	349.2	86.0	77.1	163.1
Price (per ton)	236.2	254.5	240.7	268.1	292.7	267.8	261.7	287.7	290.7
Transport cost (per ton)	51.0	55.1	53.2	77.4	98.0	70.9	85.3	55.4	140.7
Mazut	17.9	1.5	1.9	0.7	5.9	10.1	0.1	2.0	2.6
Volume (1000 tons)	162.5	17.0	21.0	7.1	20.8	65.9	0.7	21.8	22.5
Price (U.S. dollar per ton)	110.0	90.0	90.5	102.5	283.6	141.7	142.9	90.0	116.5
Diesel	24.0	2.6	2.9	3.0	3.8	12.3	4.8	3.1	8.0
Volume (1000 tons)	85.8	9.8	10.8	12.7	15.9	49.2	17.9	11.2	29.1
Price (U.S. dollar per ton)	280.0	265.0	269.0	236.0	239.0	252.3	268.2	280.0	274.1
Kerosene	20.2	4.0	5.0	1.3	2.5	12.8	2.4	6.5	8.4
Volume (1000 tons)	52.6	12.4	16.2	3.4	10.5	42.5	9.1	16.8	25.9
Price (U.S. dollar per ton)	383.8	322.0	310.0	382.0	238.0	313.0	263.7	383.8	323.8
Gasoline	21.2	10.1	7.9	17.2	22.4	57.6	14.1	10.3	27.0
Volume (1000 tons)	51.7	30.9	24.2	55.4	68.6	179.1	57.0	25.2	82.2
Price (U.S. dollar per ton)	410.0	326.9	326.9	310.5	326.4	322.7	247.4	410.0	328.7
LPG	1.1	0.1	0.1	0.3	0.2	0.7	0.0	0.3	0.2
Volume (1000 tons)	7.8	1.9	1.9	5.7	2.9	12.4	0.0	2.0	2.0
Price (U.S. dollar per ton)	138.0	52.5	52.6	52.6	52.6	52.6	52.6	138.0	95.3
Other energy products	5.1	0.1	0.1	0.1	0.1	0.5	0.0	0.2	0.2
Coal	5.1	0.1	0.1	0.1	0.1	0.5	0.0	0.2	0.2
Volume (1000 tons)	36.4	1.2	1.4	1.6	1.6	5.8	0.5	1.5	2.0
Price (U.S. dollar per ton)	140.0	83.3	83.3	83.3	83.3	83.3	83.3	140.0	111.7

Sources: Ministry of Energy and the Department of Statistics.

Table 19. Armenia: Gas Imports and Payments

	1994	1995												1995	1996					
	Year	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Year	Jan.	Feb.	Mar.	Apr.	May	Jun.
Gas Imports from Turkmenistan																				
(In millions of U.S. dollars)																				
Total	69.4	2.1	2.4	2.9	2.4	2.2	10.4	11.1	14.3	16.0	13.0	10.8	10.6	129.2	6.5	7.8	6.9	3.9	3.4	3.2
Volume (millions cubic meters)	968.0	114.1	117.3	98.5	116.9	90.1	129.6	139.1	179.1	199.6	163.1	134.8	132.8	1614.9	118.8	104.2	92.2	52.1	45.4	42.3
Price (USD/thousand cubic meters)	90.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	90.0	55.0	75.0	75.0	75.0	75.0	75.0
Payments	66.3	0.8	3.7	7.4	4.5	5.8	5.7	14.2	11.4	6.6	5.9	7.9	18.8	22.8	6.5	3.9	1.8	0.3	-1.0	0.0
Cash	0.0	0.0	0.7	0.4	1.2	0.9	1.7	1.0	3.0	1.5	2.4	4.0	3.0	19.8	6.5	2.1	1.8	0.3	0.0	0.0
Jewelry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods	56.8	0.8	2.9	4.5	3.2	4.7	4.0	13.2	8.4	4.8	3.5	3.9	12.7	66.6	0.0	1.8	0.0	0.0	0.0	0.0
Goods from other countries	0.5	0.1	0.2	2.4	0.0	0.2	0.0	0.0	0.0	0.3	0.0	0.0	2.1	5.4	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding payments	4.1	8.3	5.7	0.5	4.9	1.4	4.6	-3.0	2.9	2.3	7.2	2.9	-8.2	36.4	0.0	3.9	5.1	3.6	3.4	3.2
Cash	5.4	3.4	2.9	2.5	2.3	1.8	2.2	3.2	2.4	4.5	2.5	0.0	1.0	28.6	0.0	0.0	0.0	0.8	0.9	0.8
Jewelry	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.0	-1.0	0.0	5.4	5.4	5.4	5.4	5.4
Goods	-13.4	4.9	3.0	0.4	2.6	-0.2	2.4	-6.2	0.5	5.2	4.7	2.9	-6.0	14.1	0.0	3.9	5.1	2.9	2.5	2.3
Goods from other countries	6.7	-0.1	-0.2	-2.4	0.0	-0.2	0.0	0.0	0.0	-0.3	0.0	0.0	-2.1	-5.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:																				
Stock of arrears to Turkmenistan	4.1	12.4	18.1	18.5	23.4	24.7	29.4	26.3	29.2	38.5	45.7	48.6	40.5	48.5	40.5	40.5	40.5	0.0	0.0	0.0
Cash	5.4	8.8	11.7	14.2	16.5	18.3	20.5	23.7	26.0	30.5	33.0	33.1	34.0	34.0	34.0	34.0	34.0	0.0	0.0	0.0
Jewelry	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.3	5.3	5.3	4.3	4.3	4.3	4.3	4.3	0.0	0.0	0.0
Goods	-13.4	-8.5	-5.5	-5.1	-2.5	-2.7	-0.3	-6.5	-5.9	-0.8	3.9	6.8	0.8	0.8	0.8	0.8	0.8	0.0	0.0	0.0
Goods from other countries	6.7	6.7	6.5	4.0	4.0	3.8	3.8	3.8	3.8	3.4	3.4	3.4	1.3	1.3	1.3	1.3	1.3	0.0	0.0	0.0

Sources: ArmTurTrade, Ministry of Gas and Energy, the State Department of Statistics; and Fund staff estimates.

Table 20. Armenia: Services

	1994	1995				1995	1996		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Jan-Jun
(In millions of U.S. dollar)									
TOTAL SERVICES	-75.5	-27.4	-18.4	-23.4	-30.1	-99.3	-16.6	-11.9	-28.5
Credit	48.2	6.7	9.8	9.5	10.6	36.7	8.0	10.0	18.1
Debit	-123.7	-34.2	-28.3	-32.9	-40.7	-136.0	-24.6	-22.0	-46.6
Non-factor services	-68.8	-25.9	-15.4	-21.6	-26.9	-89.8	-14.5	-10.0	-24.5
Credit	47.8	6.2	9.1	8.7	9.6	33.5	7.0	8.5	15.5
Debit	-116.5	-32.1	-24.5	-30.2	-36.5	-123.4	-21.5	-18.5	-40.0
Transport and freight	-32.4	-21.2	-12.1	-16.6	-20.8	-79.7	-15.4	-11.0	-26.5
Credit	39.3	3.4	5.1	6.3	6.8	21.5	3.3	4.8	8.1
Freight to Russia	10.3	1.2	2.2	2.0	2.2	7.6	1.3	1.0	2.3
Freight to Turkmenistan	21.7	0.7	1.1	1.9	1.5	5.2	0.3	0.8	1.1
Freight to other cou. of former USSR	0.9	0.1	0.2	0.3	0.2	0.8	0.2	0.3	0.5
Freight to rest of the world	6.4	1.4	1.6	2.1	2.9	8.0	1.4	2.8	4.2
Debit	-71.7	-24.6	-17.1	-22.9	-27.6	-92.2	-18.7	-15.9	-34.6
Freight from Russia	-13.7	-4.8	-3.1	-4.0	-4.3	-16.2	-2.4	-1.9	-4.3
Freight from Turkmenistan	-21.7	-8.2	-8.4	-12.9	-10.8	-40.4	-7.9	-3.5	-11.4
Freight from other countries	-12.8	-3.3	-2.1	-4.3	-6.8	-16.5	-6.6	-6.9	-13.6
Wheat	-23.5	-8.2	-3.5	-1.7	-5.7	-19.1	-1.8	-3.6	-5.4
Border trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	-0.3	0.1	0.3	0.6	0.7	0.4	0.5	0.9
Credit	0.0	0.0	0.3	0.4	0.7	1.4	0.7	0.7	1.4
Debit	0.0	-0.3	-0.2	-0.1	-0.1	-0.71	-0.3	-0.2	-0.5
Communications	8.5	2.8	3.7	2.0	2.1	10.6	3.0	3.0	6.0
Technical assistance	-44.9	-7.2	-7.2	-7.2	-8.8	-39.4	-2.5	-2.5	-5.0
United States	-37.7	-5.2	-5.2	-5.2	-5.2	-30.9	0.0	0.0	0.0
European Union	-7.2	-2.0	-2.0	-2.0	-1.8	-7.8	-2.0	-2.0	-4.0
IBRD									
Institution building	-0.9	-0.1	-1.3	-0.6	-0.8	-3.8	-0.5	-0.4	-0.9
All other loans/credits	-0.3	-1.1	-2.6	-0.4	-0.3	-4.4	-1.3	-0.9	-2.2
EBRD									
Block five	-2.9	-1.5	-2.5	-0.4	-1.2	-5.6	-0.6	-0.2	-0.8
Cargo terminal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-6.7	-1.5	-3.0	-1.8	-3.2	-9.5	-2.0	-2.0	-4.0
Credit	0.4	0.6	0.7	0.9	1.0	3.2	1.1	1.5	2.6
Debit	7.2	2.1	3.7	2.7	4.2	12.7	3.1	3.5	6.6
Interest earnings	0.4	0.6	0.7	0.9	1.0	3.2	1.1	1.5	2.6
On official reserves	0.4	0.6	0.7	0.9	1.0	3.2	1.1	1.1	2.2
On Georgia loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Interest due	7.2	2.1	3.7	2.7	4.2	12.7	3.1	3.5	6.6
Bilateral creditors	6.6	1.7	2.6	2.0	2.2	8.5	1.8	1.3	3.1
Russia	2.6	0.9	0.9	1.1	1.1	4.1	1.0	1.1	2.0
Others	4.0	0.8	1.7	0.9	1.1	4.5	0.9	0.2	1.1
Multilateral creditors	0.6	0.4	1.1	0.7	1.9	4.1	1.3	2.2	3.5

Sources: State Department of Statistics; and Fund staff estimates.

Table 21. Armenia: Official Transfers

	1994	1995				1996	1996		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Jan-Jun
(in millions of U.S. dollar)									
Total official transfers	227.2	52.6	41.3	47.8	57.1	198.9	30.5	51.8	82.3
Grants in kind	189.8	38.8	27.5	30.4	29.0	125.7	23.8	30.3	54.0
Technical assistance	44.9	7.2	7.2	7.2	8.8	30.4	3.0	3.0	5.9
Other assistance	3.5	0.0	0.0	4.4	6.1	10.5	3.3	2.1	5.4
Other grants in kind (unspecified)	0.0	6.6	6.6	5.8	13.3	32.3	0.5	16.5	17.0
United States	187.8	32.7	26.9	37.9	33.9	141.5	21.4	26.0	57.4
Grants in kind	149.3	22.5	26.7	27.7	24.4	101.3	21.4	20.0	41.4
Food	103.4	21.0	14.9	17.9	17.9	71.7	13.5	12.0	25.5
Medicines	9.9	1.5	1.5	1.5	6.5	11.0	4.1	4.1	8.3
Fuel	24.5	0.0	2.0	0.0	0.0	2.0	3.8	3.8	7.6
Others	11.5	0.0	8.3	8.3	0.0	16.6	0.0	0.0	0.0
Technical assistance	37.7	5.2	5.2	5.2	5.2	20.9	0.0	0.0	0.0
Other grants in kind (unspecified)	0.0	5.0	5.0	5.0	4.3	19.3	0.0	16.0	16.0
E.U.	46.2	18.3	2.8	4.7	6.5	32.3	3.1	11.1	14.2
Grants in kind	39.7	16.3	0.8	2.7	4.6	24.4	1.1	9.1	10.2
Food	39.7	16.3	0.8	2.7	4.6	24.4	1.1	9.1	10.2
Wheat	27.0	11.2	0.0	2.3	2.1	15.6	1.1	6.6	7.7
Other foods	12.7	5.1	0.8	0.4	2.5	8.8	0.0	2.5	2.5
Non-food	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical assistance	7.2	2.0	2.0	2.0	1.8	7.8	2.0	2.0	4.0
Other assistance (incl. debt relief)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other grants in kind (unspecified)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	0.0	0.0	0.0	0.0	4.0	4.0	0.8	0.8	1.5
Grants in kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical assistance	0.0	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0
Other assistance	0.0	0.0	0.0	0.0	3.0	3.0	0.8	0.8	1.5
Other grants in kind (unspecified)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Italy	0.0	0.8	0.8	0.8	0.8	3.2	0.5	0.5	1.0
Grants in kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other grants in kind (unspecified)	0.0	0.8	0.8	0.8	0.8	3.2	0.5	0.5	1.0
Japan	0.0	0.0	0.0	0.5	0.5	1.0	0.5	0.5	1.0
Grants in kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assistance	0.0	0.0	0.0	0.5	0.5	1.0	0.5	0.5	1.0
Other grants in kind (unspecified)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	0.0	0.8	0.8	2.9	8.2	12.7	0.0	0.0	0.0
Grants in kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assistance	0.0	0.0	0.0	2.9	0.0	2.9	0.0	0.0	0.0
Other grants in kind (unspecified)	0.0	0.8	0.8	0.0	8.2	9.8	0.0	0.0	0.0
Russia	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants in kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assistance	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other grants in kind (unspecified)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Germany	0.0	0.0	0.0	0.0	3.0	3.0	3.0	3.0	6.0
Grants in kind	0.0	0.0	0.0	0.0	0.0	0.0	1.3	1.2	2.5
Technical assistance	0.0	0.0	0.0	0.0	0.7	0.7	1.0	1.0	1.9
Other assistance	0.0	0.0	0.0	0.0	2.3	2.3	0.8	0.8	1.6
Other grants in kind (unspecified)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
U.K.	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.0	0.3
Grants in kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assistance	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.0	0.3
Other grants in kind (unspecified)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Argentina	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	1.0
Grants in kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assistance	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	1.0
Other grants in kind (unspecified)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Syria	0.0	0.0	0.0	1.0	0.0	1.0	0.0	0.0	0.0
Grants in kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assistance	0.0	0.0	0.0	1.0	0.0	1.0	0.0	0.0	0.0
Other grants in kind (unspecified)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Based on amounts pledged at the CG meetings in November 1994, March 1995 and May 1996, and a donor's meeting on June 21, 1995.

Summary of Tax System
(as of June 1996)
(All values in drams and multiples of the minimum wage)

Tax	Nature of Tax	Deductions and Exemptions	Rates
<p>1. Taxes on consumption</p> <p>1.1 VAT</p> <p>The VAT is legislated under the Law on VAT, approved by Parliament in July 1993 and amended in December 1994.</p>	<p>A tax on the supply of goods, labor services, and other services, by legal persons and their branches and by individual entrepreneurs. The VAT liability is determined as the difference between the VAT charged on sales and VAT paid on purchases, up to the retail level and on the gross margin, at the retail level (an equivalent tax-inclusive rate of 16.67 percent applies to the gross margin). The tax base is price plus excise taxes on domestic goods and the import price for imported goods.</p> <p>Input tax credit: Credit is allowed for VAT paid on raw materials, fuel, and other work and services involved in production and sales. Credit is allowed on capital assets except buildings. This credit is given on an immediate basis if the value of the asset is no more than 300 times the minimum wage or over a six-month period in equal instalments if the value of the asset is over 300 times the minimum wage; and on VAT paid in other CIS countries.</p> <p>Border adjustments: Imports from CIS countries are zero rated and exports to these countries are taxed (origin basis). Imports from other countries are taxed and exports to them are zero-rated (destination basis).</p>	<p>Exemptions: Nonresident diplomatic purchases; transit trade; sales of stamps; housing rental by individuals; financial intermediation; funeral services; pharmaceuticals; urban electrical transport; water; sewerage and heat; casino and gambling sales; constructive services performed by foreign and international religious and social organizations using their own means, property bought as a result of privatization, rent of leased enterprises organized on the basis of state enterprises and paid to the budget; circulation of currency and securities; services for which state duties are charged; services for pre-schoolers, the sick and the elderly; granting of copyrights and licenses; goods and services imported as humanitarian aid and for charitable purposes; food supplies contained in a government list (the list is reduced down to three products); primary agricultural products; food produced by educational institutions for their own needs; scientific and related activities financed by the budget or nonbudgetary funds; precious metal inputs and metal recycling; children's schoolbooks and copybooks; and government sale of confiscated property. The Government has also granted exemptions for certain kinds of activities such as medical services, services in the sphere of irrigation, services at the earthquake zone, and the activities carried out by the Blinds' Union.</p>	<p>Rates: 20 percent (16.67 percent on goods sold at VAT-inclusive prices). Invoice method applies to preretail level and margin method to retail level.</p>

Tax	Nature of Tax	Deductions and Exemptions	Rates																																							
1.2 Excises																																										
The law was adopted by the Parliament on June 6, 1992. New rates went into effect on November 1, 1995.	All excise rates are ad volorem. Domestic production is quoted on a tax-inclusive basis, whereas imports are quoted on a tax-inclusive basis. Effective January 5, 1992, the tax is payable by those producers of the listed goods that are legal persons or individuals, or, in the case of imports, by the enterprises or individuals who import the goods.	Exemptions: raw materials used as inputs into excisable goods; goods exported outside the states of the former USSR, goods imported as humanitarian aid and for charitable purposes; and goods imported for transit.	Rates: The rates in effect as of December 1, 1995 are as follows: Goods: <table><tr><td></td><td>Dom.</td><td>Imp.</td></tr><tr><td>Liquor products</td><td>50</td><td>75</td></tr><tr><td>Beer</td><td>50</td><td>75</td></tr><tr><td>Wine</td><td>25</td><td>50</td></tr><tr><td>Fish caviar</td><td>50</td><td>50</td></tr><tr><td>Cigarette Products</td><td>50</td><td>50</td></tr><tr><td>Jewelry and Bijouterie</td><td>25</td><td>25</td></tr><tr><td>Furs (except soldier's uniforms) and leather apparel</td><td>25</td><td>25</td></tr><tr><td>Passenger cars</td><td>0</td><td>15</td></tr><tr><td>Passenger car tires</td><td>25</td><td>15</td></tr><tr><td>Porcelain and Crystal</td><td>25</td><td>25</td></tr><tr><td>Handmade carpets</td><td>50</td><td>50</td></tr><tr><td>Petrol</td><td>25</td><td>25</td></tr></table>		Dom.	Imp.	Liquor products	50	75	Beer	50	75	Wine	25	50	Fish caviar	50	50	Cigarette Products	50	50	Jewelry and Bijouterie	25	25	Furs (except soldier's uniforms) and leather apparel	25	25	Passenger cars	0	15	Passenger car tires	25	15	Porcelain and Crystal	25	25	Handmade carpets	50	50	Petrol	25	25
	Dom.	Imp.																																								
Liquor products	50	75																																								
Beer	50	75																																								
Wine	25	50																																								
Fish caviar	50	50																																								
Cigarette Products	50	50																																								
Jewelry and Bijouterie	25	25																																								
Furs (except soldier's uniforms) and leather apparel	25	25																																								
Passenger cars	0	15																																								
Passenger car tires	25	15																																								
Porcelain and Crystal	25	25																																								
Handmade carpets	50	50																																								
Petrol	25	25																																								

Tax	Nature of Tax	Deductions and Exemptions	Rates								
2. Taxes on income and profits											
2.1 Personal income tax	<p>The tax applies to physical persons with permanent residence in Armenia and those without permanent residence who earn income in Armenia. Filing is on an individual basis.</p> <p>Income subject to tax includes that from labor, royalties, business activities, leasing of property, share capital participations, securities and interest income, in-kind incomes, and other. Foreign currency income is converted into drams based on the exchange rate of the CBA on the date received. Individuals and owners of individual enterprises as well as others not covered by salaried employment or royalties determine net income in conformity with enterprise laws. Presumptive determination of income is allowed.</p> <p>Income from agriculture is subject to a separate tax (see below).</p>	<p>Exempt income: state social security and social insurance and payments by certified non-profit organizations; pensions and supplementary pensions; compensation for injuries; health problems or death from a job; other compensation envisaged by the Government; payments to family members of military personnel killed in action; unemployment benefits; disaster assistance; gains from state bonds and bills; lottery winnings paid in-kind; income from donations of blood and mothers' milk; alimony; the sale of personal property not for the entrepreneurial purposes; agricultural income; certain insurance payments; monetary and in-kind inheritances and gifts from the physical persons (except royalties); gifts from legal persons up to five times minimum wage; nonmonetary prizes from competitions and monetary up to 24 times minimum wage; and scholarships and stipends to students.</p> <p>Personal Exemptions: National heroes, heroes of states of the former USSR awarded by all three stages of the special Award for Glory, persons disabled during WWII or in the defence of Armenia, participants in the World Wars and other wars of CIS, the congenitally handicapped of the first and second degree, those sick from nuclear disasters or from radiation get a personal exemption of ten times minimum wage; military personnel get an exemption of eight times minimum wage; parents and spouses of soldiers wounded or killed in action (for both parents and the spouse), the parents, the spouse or the guardian taking care of the handicapped of the first group, parents under special</p>	<p>Rates: For income, the rates in effect expressed as a percentage of income on a monthly basis</p> <p>Brackets in multiples of the minimum wage (MW)</p> <table><tr><td>Income up to 10 times MW</td><td>12</td></tr><tr><td>Income 10 to 20 times MW</td><td>18</td></tr><tr><td>Income 20 to 40 times MW</td><td>25</td></tr><tr><td>Income above 40 times MW</td><td>30</td></tr></table>	Income up to 10 times MW	12	Income 10 to 20 times MW	18	Income 20 to 40 times MW	25	Income above 40 times MW	30
Income up to 10 times MW	12										
Income 10 to 20 times MW	18										
Income 20 to 40 times MW	25										
Income above 40 times MW	30										

Tax	Nature of Tax	Deductions and Exemptions	Rates								
2.2 Enterprise profits tax											
Decree of the President of January 4, 1992. The law effective April 1, 1992. The main amendments made to the Law are effective January 1, 1995	<p>Effective January 5, 1992, a tax on profits of legal persons operating in Armenia, including foreign legal entities. The taxable profit is determined based in the book profit, which is the sum of profit from the sales of products, services, intangibles, fixed assets and other material valuables and non-operational income (less the cost of non-operational activities). revenues include those from lease of property, sales of inventories, shares and other securities (provided they were previously taxed), non-operational income (income from transactions not directly connected with the production), and grants by other enterprises and organizations. barter is also included in revenues. Costs of production and sale are deducted in calculating taxable profit. depreciation is allowed on capital assets using the system set up under the USSR. Loss carry forward is allowed since July 1, 1996. Presumptive determination of profit is allowed in individual cases envisaged under the law.</p> <p>An <u>excess wage tax</u> is in place as well. It disallows a deduction for wages exceeding fifteen times the minimum wage (this is in a separate decree of the President)</p>	<p>Tax holidays:</p> <p>a) agricultural enterprises except industrial-type ones. Enterprises earning more than 25 percent of revenue from non-agricultural activities must maintain separate records and pay taxes on those activities.</p> <p>b) new enterprises for their first two years after being officially registered. Joint ventures and enterprises with foreign capital participation receive varying levels of tax credits (up to 3-10 years after being officially registered, depending on the proportion of foreign capital: 50 percent when the foreign capital participation is above 50 percent and the minimum investment is a sum equal to US\$100,000, and 30 percent if it is between 30 and 50 percent and the minimum investment is a sum equal to US\$40,000 to US\$100,000).</p> <p>Exemptions from profits tax: Certain reinvestment and production expansion expenditures; contributions to charitable and other funds and to government approved cultural, educational, health and social organizations (up to 10 percent of profits); profits for firms employing at least 50 percent invalids and 50 percent of profits if disabled are 30-50 percent of total employees; amounts companies devote to reserve funds (up to 25 percent of actually formed capital); and profit from state securities in an amount of the difference between the value of acquisition and the face value of privatization certificates (vouchers). The reduction of tax should not exceed 60 percent except for specific cases envisaged under the law.</p>	<p>Rates: The rates are expressed as a percentage of net income (profit).</p> <p>Annual profit in <u>thousands of drams</u></p> <table><tr><td>up to 360</td><td>12</td></tr><tr><td>360 to 720</td><td>18</td></tr><tr><td>720 to 1080</td><td>25</td></tr><tr><td>above 1080</td><td>30</td></tr></table> <p>Banks and insurance companies 30</p> <p>Casinos 70</p> <p>Foreign legal entities are now subject to the same rate brackets.</p> <p>The Government, with the approval of the Standing Committee on Financial, Budgetary and Economic affairs of the National Assembly, can establish alternative rates and other privileges.</p>	up to 360	12	360 to 720	18	720 to 1080	25	above 1080	30
up to 360	12										
360 to 720	18										
720 to 1080	25										
above 1080	30										

Tax	Nature of Tax	Deductions and Exemptions	Rates
<p>2.3 Land tax</p> <p>Effective April 1, 1994</p> <p>Taxpayers are land owners and permanent and temporary users of state land.</p>	<p>For agricultural land, the tax is based on net income, determined by the land cadaster valuation. For other land, the tax is based on the land cadaster value.</p>	<p>Exemptions: Budget institutions and organizations, state reserves, national parks, botanical gardens, and lands of historic-cultural importance (excluded leased land plots and land plots of service use thereon); farmers and collective economies formed during land reform and privatization for the two years following the month of land property right; land users who has been provided with the right to use the land for a specific period on the condition of being exempted from profit tax for that period; state land of general use, educational-industrial and experimental plots attached to colleges and schools; re-established grape and fruit gardens until the first harvest provided the area is at least 0.1 hectare.</p> <p>A 50 percent exemption applies to certain lands used for scientific, educational, and agricultural and forest cultivation programs; and citizens exempt from income tax (currently there is no such exemption).</p>	<p>Rates: For the land of agricultural use, the rate is 15 percent of net income. For non-agricultural land, the following rates as a percentage of land cadaster value apply:</p> <p>Land of industrial importance, transportation, communication, broadcasting, television, defence, gas lines, water funds</p> <p>within settled area 1 outside of settled area 0.5</p> <p>land for forest stocks 1</p> <p>Other land 1</p> <p>For grape gardens a 7.5 percent of net income tax is established for 1996.</p>

Tax	Nature of Tax	Deductions and Exemptions	Rates
<p>3. Taxes on property</p> <p>3.1 Property taxes</p> <p>Enacted on February 3, 1995, with effect from July 1, 1995</p>	<p>Taxpayers are owners of property specified in the Law on Property in the Republic of Armenia. Taxable property consists of balance sheet property of enterprises (except the property, the composition of which is established by the Government); residential houses and other buildings by the value exceeding 850 times minimum wage but not less than 300 times minimum wage per family member; livestock by the amount exceeding specified norms; and cars and other specified vehicles.</p>	<p>Exemptions: Property of budget institutions and organizations; used exclusively for agricultural goods and fish breeding; property of prosthetic and orthopaedic use; new enterprises for one year after being officially registered (excluding specific enterprises included in the list established by the Government); used for scientific purposes, for exclusively educational, cultural, and sporting purposes (except paid education and professional sport); of enterprises of housing services (except hotels); for state reserves; environmental protection; anti-fire; for roads and power lines; used for creating state reserves; and property in the balance sheets of enterprises of housing, social and cultural use.</p> <p>Citizens meeting the following qualifications receive an exemption on buildings by the amount exceeding 1000 times minimum wage: all the first and second category disabled persons; invalids of the world wars and other wars; former disabled partisans and family members of a person who died in war; military personnel and their family members; participants in the wars; and orphans until 18 (or if full-time students until 24)</p> <p>The property of citizens residing in border regions an exemption for 1995-1996 is established.</p>	<p>Rates:</p> <p>Enterprises: the rates range from 0.2 percent to 0.8 percent of the average annual taxable property value. The Government may also establish more detailed rates.</p> <p>Citizens: for buildings, the rate is 0.2 percent of the sum exceeding a non-taxable part of the building value; for air transport, 3 percent of the minimum wage times the horsepower of the engine or 4.08 percent of the minimum wage times its kW power; for water transport, 1.5 percent of the minimum wage times the horsepower of the engine or 2.86 percent of the minimum wage times its kW power; for a wheel or caterpillar vehicle, 1 percent of the minimum wage times the horsepower of the engine or 1.36 percent of the minimum wage times its kW power; for the livestock, 25 percent of the minimum wage for the quantity of livestock exceeding the norm.</p>

Tax	Nature of Tax	Deductions and Exemptions	Rates
3.2 Inheritance tax Levied at 0.5 percent of registered value of the buildings.	Some duties are levied for inheritance. The law of the former Soviet Union still applies in this area.		

Armenia and the WTO

A. The Accession Process

1. After an initial application in 1994, Armenia began the formal accession process to the WTO in late 1995, and is at present an advanced stage in its discussions on accession.¹ Armenia currently has observer status in the WTO General Council and its subsidiary bodies.

Main issues

2. Armenia's trade regime is relatively free of restrictions, but important issues for discussions and clarification remain. These include:

- * Violations of equal national treatment in the differentiation in excise tax rates between domestic and imported alcohol, cars, tobacco and other products.

- * The current agreement between Russia and Armenia (endemic to the region) of origin rather than destination principle for collection of VAT. All 12 countries of the former U.S.S.R. affected by this are negotiating a simultaneous move to the destination principle. Since the destination principle is already in use for trade with other countries, the present distinction is in violation of MFN principles.

- * Some export taxes, and fees charged on individuals.² More broadly, there are issues in customs valuation that will need refinement, particularly in the area of minimum reference export prices, where there will be a five-year elimination period.

3. Additional issues include:

- * A clear delineation of intellectual property rights.

- * Issues of state trading.

¹Technically, Armenia had originally applied for membership under the GATT, and a working paper had been established for that purpose. Under Article XII of the Marrakesh Agreement establishing the WTO, Armenia shifted its application for accession to the WTO. The Accession Petition, or Memorandum on Foreign Trade Regime, was deposited on March 15, 1995.

²While customs taxes on individuals do not violate WTO rules de jure, they violate the spirit of the WTO in restricting fully liberalized trade. The Government of Armenia plans to rectify these issues by the end of 1996.

* Trade-related investment measures.

* General rate of binding tariffs possibly in the range of 15-22 percent.

B. Costs and Benefits of Accession

4. On balance, it can be argued that the economic benefits of accession clearly outweigh the costs, particularly in the wider context of the welfare effects of liberalized trade, and the demonstration effect of being the country of the former U.S.S.R. to accede. In addition to a membership fee and a one-time advance to the working capital fund, Armenian enterprises will incur expenses owing to higher labeling, safety and packaging standards, and increased accounting for potential antidumping or countervailing duty determinations. The reporting requirements for WTO accession and membership are also substantial particularly in cases where certain traded goods are produced by several members. However, Armenia will be allowed to determine jointly with the WTO its status as either a developing or industrial country for each code individually, so that in some cases it will be classified as developing and in other cases as industrial,³ which will alleviate the costs (Appendix IV). On the other hand, certain operational benefits, or "privileges of membership" will also accrue. These include: guaranteed MFN status to the markets of other WTO members; access to WTO's dispute-settlement mechanisms in the event Armenia faces unwarranted restrictions on market access; and, perhaps most importantly, creating international obligations that help contain inward-looking domestic forces from bringing about a policy swing toward protectionism. Armenia's current tariff regime is more liberal than that of many WTO members. Reforms in the areas of intellectual property rights, financial disclosure and other areas of commercial law critical to trade growth for Armenia, all envisaged under the WTO, will accelerate Armenia's transition to a market-oriented economy.

5. In sum, Armenia plans to join the WTO, maintain its existing free trade arrangements with CIS countries, and later consider joining the CIS Customs Union, provided that it is WTO-consistent. This would be a case similar to the states of the EU.

³Appendix 7 presents examples of the special treatment accorded to developing or transition economies in the WTO.

WTO: Special and Differential Treatment for Developing and Transition Countries

Subject	Provisions
Customs Valuation	Developing countries may delay implementation of the provisions until the year 2000. This may be extended in specific circumstances.
	No provisions for transition economies with the status of industrial countries.
Subsidies	Less-developed countries and countries with GNP per-capita below US\$1,000 are allowed to maintain export subsidies. The former have eight years to phase out local-content subsidies, whereas the latter have five years.
	Other developing countries must phase out export subsidies within eight years with a possibility of extension. They have five years to remove local-content subsidies. No increase in the level of export subsidies is allowed.
	De minimis provisions in export markets for countervailing action.
	Privatization subsidies are allowed.
	Transition economies benefit from a seven-year period to phase out their prohibited subsidies (binding notification). An extension is possible. Direct debt forgiveness is allowed for seven years.
Safeguards	Developing countries may extend the application period of safeguards to a total of ten years. No preferential transition period for the phasing out of VERs.
Antidumping	Special regard for developing countries before action is taken.
	De minimis provisions.
Trade-related investment measures	Developing countries must phase out nonconforming trade-related investment measures within five years (binding notification).
	Less-developed countries must phase out nonconforming trade-related investment measures within seven years (binding notification).
Services	Principle of increased participation of developing countries.
	Assistance on strengthening service sectors.
	Restrictions allowed on current and capital account transactions in case of serious balance of payments or external finance problems.

Source: Buchs (1996).

ARMENIA: List of Trade Agreements with Third Countries

<i>State</i>	<i>Agreements on Trade and Economic Cooperation</i>	<i>Free Trade Agreements</i>	<i>Agreements on Investment</i>	<i>Agreements on Customs Relations</i>
Argentina	Signed May 3, 1994		Signed May 3, 1994	
Austria	Signed April 24, 1994			
Belarus	Indefinite; 1/ Signed December 24, 1993			Sent to MFA 2/ of RoA 3/
Bulgaria	Signed March 25, 1994			
China	Signed January 8, 1992		Signed July 2, 1992	
Cyprus	Signed in March 1994			
Estonia	Signed in 1992			
Georgia	Five-year duration to December 31, 1997	Signed January 14, 1995	Signed June 4, 1996	Signed June 15, 1993; five-year duration
Greece	Signed January 20, 1992		Signed January 20, 1992	
Hungary	Signed April 15, 1992			
India	Signed April 5, 1993			
Iran	Signed May 7, 1992			Signed May 6, 1992
Kazakhstan	Indefinite; Signed December 24, 1994	Sent to MFA of RoA January 31, 1996	Signed January 30, 1996	
Kyrgyzstan	Four-year duration to December 31, 1998	Signed July 4, 1994	Signed July 4, 1994; 15-year duration	
Latvia	Indefinite; Signed June 15, 1993			
Lithuania	Signed November 3, 1990 five-year duration			
Moldova		Signed December 24, 1993		
Poland	Signed March 10, 1992			

State	Agreements on Trade and Economic Cooperation	Free Trade Agreements	Agreements on Investment	Agreements on Customs Relations
Russia	Annual agreements 4/	Signed September 30, 1992		
Syria	Signed March 30, 1992			
Tajikistan	Annual agreements	Signed March 2 1994		Signed March 2, 1994
Turkmenistan	Indefinite; Signed August 24, 1993	Signed October 3, 1995	Signed March 19, 1996	Signed August 24, 1994
Ukraine	Annual agreements	Signed October 7, 1994	Signed October 7, 1994; ten-year duration	Signed October 7, 1994; five-year duration
United Kingdom			Signed May 5, 1993	
United States	Signed April 2, 1992		Signed April 2, 1992	
Vietnam	Signed December 13, 1992		Signed December 13, 1992	

1/ Indefinite: period is not specified, current agreement holds valid until a new one is signed.

2/ MFA: Ministry of Foreign Affairs.

3/ RoA: Republic of Armenia.

4/ Annual agreements implies that they have to be renewed every year.