Table 2. Armenia: Cumulative Foreign-Financed Project Loan Disbursements 1/, 2/
(In billions of drams)

2007			
March	June	September	December
12.6	25.3	37.9	50.6

1/ Cumulative from December 2006, at program exchange rates.
2/ Excludes World Bank PRSC lending and KfW loan disbursements.

Table 3. Armenia: World Bank PRSC Lending 1/
(In billions of drams)

2007			
March	June	September	December
9.0	9.0	9.0	9.0

1/ Cumulative from December 2006, at program exchange rates.

Table 4. Armenia: KfW Loan Disbursements 1/
(In billions of drams)

2007			
March	June	September	December
3.4	3.4	3.4	3.4

1/ Cumulative from December 2006, at program exchange rates.

Table 5. Armenia: Total Grant Disbursements
(In billions of drams)

2006 1/			
		September	December
		12.1	31.2
2007 2/			
March	June	September	December
1.1	2.5	4.3	5.7

1/ Cumulative from September 2006, at program exchange rates.
2/ Cumulative from December 2006, at program exchange rates.

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IMF Concludes 2006 Article IV Consultation with the Republic of Armenia

On November 22, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Armenia.[1]

Background

Armenia's economy has performed very strongly during the last five years. Average real GDP growth exceeded 12 percent during 2001–2005, while inflation averaged 3 percent. Real per capita income in U.S. dollars has tripled since 2000, and notable progress has been made in poverty reduction and structural reforms.

The strong performance of the economy continued in 2006. In the first nine months of 2006 real GDP growth was 11 percent. The 12-month rate of inflation rose to 6.1 percent, largely on account of higher food and energy prices. Average inflation in 2006 is expected to remain within 3 percent, although end-period inflation is now projected to be 5 percent. The dram has appreciated by 15 percent against the dollar in the first nine months of 2006 on account of robust foreign exchange inflows.

Fiscal policy has remained sound. Tax revenues through September 2006 increased by 19 percent over the same period last year. The fiscal deficit in 2006 is projected at 2.3 percent of GDP,

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the November 22, 2006 Executive Board discussion based on the staff report.

significantly lower than the budgeted amount of 2.8 percent of GDP, mainly due to higher-than-expected tax revenues and lower expenditure execution, although execution of capital spending improved relative to previous years.

Regarding monetary policy, broad money and private sector credit grew by 27 percent and 44 percent in the twelve months through September, respectively. Dollarization of bank deposits decreased from about 70 to 55 percent during the same period. The central bank raised the repurchase rate five times since November 2005, by a cumulative 175 basis points to 4.75 percent.

After improving in the previous two years, the external current account is projected to worsen to 4.9 percent in 2006, owing to declining diamond exports and booming imports. Nevertheless, the overall balance of payments is expected to improve, supported by buoyant capital inflows, and gross international reserves increased by $104 million through end-September. Armenia's external debt position is sustainable, and external debt ratios are projected to decline further in 2006.

Progress continues to be made in the areas of fiscal and financial sector reforms. In particular, parliament recently approved an amendment to the value-added tax (VAT) law that significantly reduces the list of goods exempt from VAT payment at the border, and an amendment to the insurance law that provides a level playing field for domestic and foreign companies. Reforms to foster financial intermediation and strengthen prudential oversight are progressing, and the authorities are encouraging the entry of reputable international banks in the Armenian market.

Executive Board Assessment

Directors commended the authorities for their prudent monetary and fiscal policies which, together with ongoing structural reforms, have contributed to Armenia's double-digit growth since 2002, low inflation, and reduced unemployment and poverty. They welcomed the Armenian authorities' strong ownership of reforms and their successful implementation of the Poverty Reduction and Growth Facility-supported program. In the context of continuing strong growth prospects, the main challenges going forward will be to manage the macroeconomic impact of continued large capital inflows, and to boost tax revenue to finance expenditure increases in infrastructure and social services.

Directors welcomed the Central Bank of Armenia's commitment to price stability and its cautious monetary policy stance. They noted the authorities' intention to revise upward the end-year inflation targets for 2006 and 2007, but cautioned that frequent revisions should be avoided. Directors underscored the importance of proper communication of inflation objectives to the public so as to maintain the credibility of monetary policy in the transition to a full-fledged inflation targeting regime over the medium term. They also underlined the importance of more effective policy coordination between the monetary and fiscal authorities, particularly in the area of domestic debt issuance, in order to ensure low inflation and a competitive exchange rate in the context of continued fiscal prudence.

Directors supported the authorities' maintenance of a flexible exchange rate regime, which has contributed to price stability. They welcomed the central bank's policy of limiting foreign exchange market intervention to preventing undue volatility in the exchange rate, rather than targeting a particular level or rate. In this context, Directors cautioned that resisting nominal appreciation pressures could come at the expense of higher inflation, thereby possibly hurting the poor and harming growth. They agreed that there is no clear evidence that the dram is currently overvalued, and emphasized that competitiveness concerns are best addressed through forceful policies to raise productivity, including by improving the business climate and spurring competition, which could also support export diversification.

Directors welcomed the fiscal tightening in 2006, and viewed the 2007 budget as compatible with macroeconomic stability. They underscored the importance of meeting the 2007 tax revenue target to maintain a prudent fiscal stance, while raising expenditures on infrastructure and social services in line with the authorities' poverty reduction strategy. Directors underscored that progress in the area of tax administration would also help to reduce the large size of the informal sector. On the expenditure side, Directors believed that improving the capacity to efficiently absorb higher social spending should be a priority. They encouraged the authorities to put in place a credible strategy to phase out the gas subsidy by end-2008 to ensure full cost-recovery and reduce medium-term fiscal risks. Noncommercial organizations should be closely monitored, as they account for a significant part of public spending.

Directors considered that fiscal reforms remain key to sustaining growth and reducing poverty. They commended the authorities for the reforms implemented in recent years, which have contributed to the notable improvement in the tax-to-GDP ratio. Nevertheless, the ratio remains low by regional standards. In this context, Directors recommended allowing tax holidays for foreign investors to expire, expanding taxation in the construction sector, and improving the tax authorities' ability to check transactions and audit taxpayers. They also saw scope to increase expenditure efficiency by strengthening internal audit and monitoring of service delivery.

Directors welcomed efforts to promote financial sector development. They observed that reforms to foster financial intermediation and further strengthen financial sector regulation will improve bank corporate governance, encourage competition between banks, and reduce the high lending-deposit spreads, while also contributing to financial deepening and reducing dollarization. They also considered that increased participation of reputable international first-tier banks would help in this regard.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.