International Monetary Fund

Republic of Armenia
and the IMF

Press Release:
IMF Executive Board
Approves Three Year,
US$34.2 Million
Poverty Reduction
and Growth Facility
Arrangement for the
Republic of Armenia
May 25, 2005

Country's Policy
Intentions Documents

Republic of Armenia: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

May 10, 2005

May 10, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

The implementation of prudent policies and structural reforms over the past several years has contributed to macroeconomic stability, consistently high growth, and significant reductions in poverty. Indeed, the strong growth of recent years has brought real output back to the 1989 level. We recognize, however, that despite the significant progress, the reform agenda is incomplete. There is a need to maintain macroeconomic stability, increase domestic revenue mobilization, enhance the business climate, and support PRSP implementation.

The attached Memorandum of Economic and Financial Policies (MEFP) outlines our broad macroeconomic objectives for 2005-08 and provides specific measures for 2005. There are two elements at the center of the program, namely (i) raising domestic resources in a transparent and non-discretionary manner, not only to create a business environment conducive to economic activity, but also to create a tax base to finance our PRSP priorities; and (ii) boosting private sector activities by fostering financial sector development and improving governance, including in the corporate sector.

In support of our economic reform program, the Government of the Republic of Armenia requests a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 23 million (25 percent of quota), following implementation of the prior actions set out in Table 2 of the MEFP.

The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, but it will take other measures that may become necessary for this purpose. The Government will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. Moreover, after the period of the PRGF arrangement, and while Armenia has outstanding financial obligations to the Fund from loans on earlier arrangements, the Government will consult with the Fund on Armenia's economic and financial policies from time to time, at the initiative of the Government or at the request of the Managing Director. We expect to complete the first semi-annual review under the proposed arrangement by late October/early November 2005.

Very truly yours,

/s/
Andranik Margaryan
Prime Minister
Republic of Armenia

/s/
Vardan Khachatryan
Minister of Finance and Economy
Republic of Armenia

/s/
Tigran S. Sargsyan
Chairman of the Central Bank
Republic of Armenia

Republic of Armenia
Memorandum of Economic and Financial Policies for 2005-08

I. Introduction

1. This Memorandum sets out the economic and financial policies of the Armenian government for 2005, which are aimed at sustaining economic growth and reducing poverty. These policies form the basis for a new three-year Fund-supported program under a PRGF arrangement.

2. The new program will build on the substantial progress already achieved under the PRGF-supported arrangement that expired on December 31, 2004. The focus will be on maintaining macroeconomic stability with prudent monetary and fiscal policies and financial sector reforms. Fiscal reforms are critical to mobilize additional domestic resources to finance growth-enhancing investment and pro-poor programs while financial sector reforms are important to increase financial intermediation and support growth of the private sector.

3. This Memorandum presents a brief summary of developments under the government's 2001–04 program, outlines the medium-term objectives and policy framework for 2005–08, and sets out specific economic and financial policies for 2005. We have reached understandings with Fund staff on a set of macroeconomic targets and structural benchmarks for 2005 (Tables 1 and 2), which are specified in the attached Technical Memorandum of Understanding (TMU). Policies described in the Memorandum are consistent with our Poverty Reduction Strategy Paper (PRSP), the government's Medium-Term Expenditure Framework for 2005-08, and the 2005 budget as passed by parliament in late December.

II. Economic Performance in 2001–04

4. We made notable improvements in economic policy implementation under the recent PRGF-supported arrangement. With the assistance of the international community, including the Fund, we implemented prudent policies and pushed ahead with structural reforms, which contributed to macroeconomic stability, consistently high growth, and significant reductions in poverty. In fact, with financial support and technical assistance from the Fund and the rest of the donor community, we were very successful in attaining the program's broad objectives as outlined in our April 2001 memorandum to the Managing Director. In most key areas, we achieved outcomes that were better than initially targeted. We plan to revise the main indicators of the medium-term macroeconomic and fiscal framework as well as poverty indicators by end-2005 as part of the PRSP update.[1]

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[1] We adopted the PRSP in August 2003, and drafted our first annual Progress Report covering the period August 2003 to December 2004, which is posted on the government's website (http://www.mfe.am).

5. Economic growth averaged nearly 12 percent over the period 2001-04 and the poverty rate declined from 55 percent in 1999 to 43 percent in 2003, compared with the PRSP target for the latter of 46 percent in 2003. The reduction in extreme poverty during this period was even more significant, falling from 23 percent to around 7 percent, compared with the PRSP target of 15 percent by 2003. Growth was broad based and supported by private and public investment, which was in turn financed by grants, concessional lending, and remittances from Armenians living abroad. Inflation averaged about 4 percent over the same period reflecting a prudent monetary stance and flexible exchange rate regime. The balance of payments improved and official gross reserves reached 4 months of import coverage at end-2004. External debt indicators improved, with the debt-to-exports ratio declining from 132 percent in 2001 to 74 percent in 2004 in net present value terms.

6. Fiscal consolidation was a central part of our strategy under the previous three-year program and contributed to our macroeconomic performance. The overall fiscal deficit was reduced from 6.4 percent of GDP in 2000 to 1.7 percent of GDP in 2004. Most of the consolidation was achieved through expenditure compression as progress with revenue mobilization was limited. Total expenditures were reduced by 3.4 percent of GDP during 2001-04, while tax revenues declined slightly as a share of GDP due to decreases in collections of taxes on profits and income. During the period, the Central Bank of Armenia (CBA) enhanced its implementation of monetary policy by the adoption of indirect instruments; improvements in the treasury bill market; and the use of open market operations to enhance liquidity management.

7. More recently, we have made important progress in ***fiscal structural reforms.*** Achievements included reducing access to the simplified tax, reducing the stock of VAT refund arrears, and publishing the names of the 300 largest taxpayers. A special division responsible for tax arrears collection was created and a law was passed giving authorization to the STS to write-off unrecoverable tax arrears. The large taxpayers unit (LTU) of the State Tax Service (STS) was merged with its central audit department, and the collection function of the State Fund of Social Insurance (SFSI) was moved to the STS, the latter already showing improved performance. Decrees were passed setting the selection criteria for tax audits, and lengthening the time for the conduct of audits to a maximum of 45 days, although this still is not enough time to conduct thorough audits. Parliament was presented with a VAT deferral law which included setting a maximum limit for the time when VAT comes due after goods cross the border, and an electronic signature law needed for trader self-input systems was passed. For the first time, an annex on expenditures of non-commercial organizations (NCOs) was included in the 2005 budget law. We have also made progress in enhancing Customs administration. We have increased the share of transactions for which customs duties are assessed according to transaction prices to 61 percent in 2004. The post-clearance verification unit is now operational and is generating additional revenues.

8. ***Banking system reforms*** have continued to progress, although progress in creditor rights has been slower than envisaged. The CBA amended its system of risk weights, making it consistent with Basel Committee recommendations under the standardized approach and tightened related-party exposure and large exposure limits. The CBA also terminated its

administration of Armcommunications Bank following capital injection from the new owners. To strengthen creditor rights, the government has been amending legislation on secured credit and simplifying procedures for registration of pledges, supported by the World Bank. In particular, an amendment to the Law on the Registration of Pledges of Moveable Property was passed to bring rules for the registration of pledges in line with the recommendations of the technical assistance provided by the World Bank. We have established a Financial Intelligence Unit aimed at combating money laundering and the financing of terrorism. Finally, the CBA has brought micro credit institutions into the supervisory framework.

9. We made good progress on the remaining structural reform agenda, which concentrated on reducing quasi-fiscal deficits (mainly in the energy sector), and enhancing governance. In the ***energy sector***, we have achieved a major turnaround in the financial situation, with its primary balance turning from deficit to surplus and tax obligations being fulfilled in a timely manner. Our success in this sector has been driven through privatization, the development of corporate governance structures, as well as an appropriate regulatory framework. The financial performance of the water and irrigation sectors has also shown a trend of improvement, owing to tariff increases and better collection.

10. Since the adoption of ***anti-corruption strategy*** in 2003, we have made progress on the action plan especially in the legislative area. Working groups were established in 2004 with broad participation across governmental agencies and a strong presence of non-government organizations to begin to address corruption in different sectors. In addition, liaison offices were set up in line ministries. Other reforms carried out to improve governance included the simplification of licensing procedures, civil service reform, adoption of a new criminal code, and more widespread dissemination of laws and regulations.

11. Despite significant progress, we recognize that the reform agenda remains incomplete, and we will be working to move forward in these areas. In the area of tax policy and tax and customs administration, the two-year program of priority reforms needs to be finalized, and the time to conduct audits will need to be further lengthened for effective tax audits. The use of risk-based approaches in the areas of audits, arrears collection, and VAT refunds will need further technical assistance before its successful implementation. We have passed legislation to regulate the use of cash registers but have decided to delay implementation until December 2005 following consultation with small traders. We are acutely aware that we need to build institutional capacity in these areas to make significant progress in tax and customs collections. In addition, we will strengthen financial sector development in order to support growth of the private sector.

III. PROGRAM OBJECTIVES AND STRATEGY FOR 2005–08

12. The new program builds on our past achievements and our strategy to implement the PRSP, and will seek to address the remaining reform agenda. It aims to further consolidate macroeconomic stability, achieve more broad-based growth, and reduce unemployment and poverty.

13. Continued sound macroeconomic policies and effective implementation of structural reforms would support real growth rates of at least 6 percent in the medium-term. Growth will be increasingly supported by strong private investment, and public investment aimed primarily at strengthening infrastructure. Monetary policy will aim to contain annual inflation to 3 percent. The fiscal deficit is projected to remain generally below 3 percent of GDP, but is not expected to fall much lower as social and infrastructure needs remain important and expenditure execution improves. The share of social expenditure (including health, education, and social security) is envisaged to increase from 5.5 percent of GDP in 2004 to 7.0–7.5 percent in 2008. These policies will go a long way towards achieving a further reduction in the poverty rate to around 30 percent by 2008—a key objective of the PRSP. The external current account deficit will gradually decline to about 5 percent of GDP in 2008 with import growth remaining buoyant reflecting strong demand for imported capital and intermediate goods needed to support growth. External debt ratios are projected to continue to fall to about 60 percent of exports by 2008 in present value terms.

14. The program will focus on five policy challenges, namely:

- maintaining macroeconomic stability by implementing prudent monetary and fiscal policies, particularly during a period of large capital inflows in the presence of underdeveloped financial markets.

- raising tax revenue by strengthening tax and customs administrations, and tax policy reforms,

- improving budgetary expenditure management to link the budgetary process more closely with the PRSP priorities,

- fostering financial intermediation by strengthening supervision of financial institutions and improving corporate governance, and

- improving governance by increasing transparency and reducing rent-seeking opportunities, with a view towards bringing the shadow economy to the formal economy.

15. The program's fiscal objectives will focus on reigning in potential demand pressures as private demand picks up over the medium term. On the revenue side, raising domestic resources in a transparent and non-discretionary manner will be a primary objective of the program, not only to create a business environment conducive to economic activity, but also to create a tax base that will become more important as aid flows diminish over the medium term. On the expenditure side, implementing PRSP objectives in the social sector will be accorded high priority. Strengthening infrastructure, especially in the rural areas, will also be important to allow for broad-based growth.

IV. The 2005 Program

16. The principal goal of the 2005 program is to achieve a significant increase in tax revenues in a stable macroeconomic environment, with growth targeted at about 8 percent and consumer price inflation at 3 percent.

A. Fiscal Policy

17. The **2005 budget** aims for a deficit of AMD 49.3 billion (2.3 percent of GDP), which includes AMD 12.5 billion (0.6 percent of GDP) of privatization fees as nontax revenues.[2]. Tax revenues and total expenditures are budgeted to increase by 0.6 percent of GDP (to AMD 310 billion) and 1.4 percent of GDP (to AMD 394.6 billion), respectively relative to 2004 outturn. The budget does not include any potential disbursements from the Millennium Challenge Account (MCA). In the event of disbursements in 2005, a supplementary budget would be passed to allocate all funds from the MCA to additional capital expenditure.

18. The increase in tax revenue hinges on improving tax and customs administration. We recognize that the tax target is ambitious but are confident that it will be achieved given the tax policy and administration measures recently implemented. Indeed, there are initial indications that these measures are already yielding notable results, with tax collections increasing by 24 percent in January and February 2005 relative to the same period in 2004. Nevertheless, should there be a revenue shortfall during the year, we will adjust expenditures accordingly to meet the overall budget target. The targets for the second half of the year may be adjusted if GDP developments during the first half of the year lead to a change in the annual projection.

19. On the expenditure side, the budget allocates significant increases to social and capital expenditures. This increase provides for a catch-up relative to the PRSP targets. Specifically, health spending is budgeted to increase from an outturn of 1.3 percent of GDP in 2004 to 1.5 percent of GDP, education spending is budgeted to increase from 2.3 to 2.7 percent of GDP, and social security spending is budgeted to increase from 1.9 to 2.2 percent of GDP. Given the large increases envisaged, we will be particularly vigilant regarding expenditure efficiency.

20. We are considering passing a supplementary budget to finance an increase in capital expenditure on road and school construction by AMD 4-5 billion. If we decide on a supplementary budget, the additional spending will be financed by additional tax revenue and reallocation of existing expenditures, thereby keeping the overall fiscal deficit for 2005 unchanged. We will not use the funds in the Special Privatization Account to finance additional spending in 2005. We recognize the need for contingency measures in the event of

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[2] In IMF classification, the overall deficit is AMD 61.8 billion (2.9 percent of GDP) as the privatization receipt is classified as a financing item.

a revenue shortfall during the year. Specifically, we will authorize expenditures beyond the plans for the original budget only insofar as tax revenues beyond those envisaged in the original budget accrue during the year.

B. Monetary and Exchange Rate Policy

21. Price stability will continue to be the main objective of monetary policy. The CBA will aim at an inflation target of 3 percent for 2005. Base and broad money are projected to grow by 14.0 and 18.5 percent, respectively. The CBA will limit its intervention in the foreign exchange market to smoothing out excessive volatility in the exchange rate. To further enhance the coordination between fiscal and monetary policy management, the Ministry of Finance and Economy (MFE) and CBA have agreed a mechanism to support the CBA's efforts to enhance its liquidity management capacity and to develop the domestic government debt market. The government will increase the intra-year issuance of government securities by at least AMD 15 billion, and the proceeds will subsequently be deposited and maintained in its accounts at the CBA. The CBA will pay the interest cost for the above issuance. To ensure adequate instruments for flexible money-market operations, the MFE and CBA have also agreed that the CBA issue its own securities as needed. The MFE and CBA will revisit, as necessary, the arrangement regarding government securities with a view to ensuring adequate instruments for macroeconomic stability. In view of the rapid expansion of credit to the economy, the CBA will monitor lending practices and the quality of loan portfolios.

C. Structural Policies

22. We will pursue an ambitious structural reform agenda that focuses on fiscal and financial sector reforms. We will work closely with the World Bank on reforms in energy, water, and irrigation sectors, among others.

Fiscal reforms

23. The centerpiece of the program will be reforms in tax policy and tax and customs administration. We have finalized a two-year action plan, that is closely in line with IMF Fiscal Affairs Department recommendations, and which was approved by the government. We will establish a High Level Working Group on Revenue Mobilization to enhance inter-agency coordination and revenue mobilization, and coordinate the implementation of the action plan. Specific measures that we intend to take in 2005 are discussed below.

24. Our **tax policy** measures aim to broaden the tax base without raising rates:

- We are committed to strengthening the VAT chain of credits. Effective 2006, VAT exemptions at the border will be further restricted. Imports of the re-export sectors (diamond and gold) will be covered by the temporary import-export regime; and gas will continue to be taxed at the first point of sale. Of the remaining 234 exempted lines, 139 exemptions will be abolished. Based on the total import value during 2004, we will remove a minimum of AMD 35 billion. In line with IMF technical assistance, we will introduce a pilot capital deferral system. On an interim basis, some VAT exemptions will remain on certain capital goods. We intend to eliminate these exemptions to capital deferral system when it becomes fully operational. A small number of exemptions will remain, but they will be restricted to import lines in the areas of agriculture, health, newsprint, and other political and socially sensitive goods. No further VAT exemptions will be introduced.

- We will introduce a time limit after which VAT must be paid under the capital deferral system, effective 2006.

- In January 2006, we will abolish the presumptive social security payment for simplified taxpayers, and incorporate them into the regular social security tax payments system.

25. Additional tax policy measures that we are considering implementing over the medium term include the finalization of a unified tax code; and moving large-scale operations from the presumptive tax to the VAT. Also, we plan to allow the current profit tax exemptions for large foreign investments to lapse in 2007 as stipulated in the law.

26. In **tax administration**, we will focus in 2005 on improving tax audits, tax arrears collection, and the VAT refund mechanism. We will continue to press ahead with improvements in the STS's structure, management, and procedures. In this context, we intend to implement the following measures:

- improve the STS's ability to conduct audits by passing a separate law on tax audits, including provisions that specifically permit off-site audits and several types of audits at a time; extend the time limit for budget audits of large enterprises to at least 3 months; and extend the time limit for drafting the audit report to at least 3 weeks. To avoid the harassment of taxpayers, more detailed justifications for audits will be required, and all visits to taxpayers will have to be filed by the inspectors as proper audits,

- finalize, in consultation with Fund staff, a plan for the collection of tax arrears with specific targets by inspectorate with a view to collecting arrears or writing off the unrecoverable part of the end-2004 stock of tax arrears by the end of 2006; we intend to collect at least AMD 4 billion in tax arrears in 2005,

- implement an annual audit plan for large enterprises based on risk-classification and specifying priorities and targets, with a view to move to fully automatic risk-based audit selection for all enterprises at the beginning of 2006,

- repay at least AMD 4 billion of the stock in VAT refund arrears owed to exporters at the end of 2004 and ensure that no new arrears are incurred in 2005 on a monthly basis. Furthermore, we are working on a fully automatic system for VAT refunds, including accompanying legislation that excludes expenses particularly prone to fraud from refund eligibility,

- improve the information sharing between the STS and the SCC, potentially including through a partly shared IT system, to increase combined revenue collection,

- establish an IT strategy plan for the STS, specifying the requirements particularly in the context of (i) risk-based selection criteria in the areas of audits, arrears collection, and VAT refund processing, and (ii) improving resource efficiency by better information sharing between the regional tax inspectorates and the various headquarter functions. Based on this plan, we will seek donor support and allocate own resources to IT improvements. We also aim at better utilization of existing IT, and

- strengthen the capacity of the LTU. We will introduce a rotation system for inspectors in the LTU to prevent collusion with taxpayers. We are reorganizing the LTU along sectoral lines to maximize revenues.

27. To improve the functioning of **customs administration**, we intend to:

- agree with IMF and World Bank staffs, by June 2005, the terms of reference for an operational review of the State Customs Committee to be conducted by a specialized international company.

- increase the share of the number of declarations of imports (taxable at the border under ad valorem taxes), for which the approved customs value is determined on the basis of declared transaction prices by 5 percentage points in 2005. This will be confirmed by reports obtained directly from the ASYCUDA system. Progress in this area will be confirmed during the year by quarterly reports published on the State Customs Committee's website,

- accelerate the move to self-assessment of importers, including through electronic declarations by direct trader input, building on the system recently installed. We aim to increase the share of imports processed through the direct input system. We will report on end-June information by July 2005 on the efforts we have undertaken to encourage the use of direct trader input. Such reports will also include information on the use of the direct trader input system, including the number of traders registered, the number of declarations processed by this method, and the total number of declarations. In addition, given the recent passage of the Law on Electronic Signatures, we will advertise in the mass media the opportunity this creates in allowing direct input by traders from remote locations,

- expand the use of the examination selectivity module in ASYCUDA to all customs houses by December 2005. Refine the selectivity criteria used to reduce progressively the share of import consignments, especially those from low-risk countries, selected for physical examination. We will monitor the progress made towards this goal and report, on a quarterly basis, the number and percentage of declarations selected for examination, and,

- strengthen further the operations of the internal audit unit and the post-clearance verification audit unit and continue the regular preparation of audit reports. We will also develop, by August 2005, a plan for post clearance verification audits and will report regularly on progress against the plan.

28. We recognize the importance of better targeting of government **expenditures** to ensure adequate public investment and social spending and high expenditure quality. Improvements in this area will be even more crucial against the background of the expenditure increases envisaged for 2005 and the medium-term. In this regard, we plan to:

- improve the consistency of the annual and quarterly budgets with the actual outturns by measures to raise expenditure execution, particularly in the first half of the year. We will improve the procurement and bidding process, particularly regarding the cooperation between the MFE and the line ministries, possibly by introducing a computerized procurement network system,

- prepare a public investment plan (PIP) to improve strategic planning of capital expenditure, and improve the GFS compliance of the classification of capital expenditure,

- monitor closely recent decentralization measures and capacity building. A large portion of Armenia's social spending is now channeled through government-owned noncommercial organizations (NCOs). Specifically, we will implement the action plan for improving the monitoring system, encompassing staff recruitment, software development, training, and legislative change, and will seek donor support,

- press ahead with the Accounting and Second Generation Treasury Reform (A2GTR) project and will specifically assign MFE staff to this project,

- seek agreement with donors on the strategy paper on an internal audit unit in the MFE and will subsequently begin with its creation and assignment of staff, and

- conduct an external audit of the State Fund of Social Insurance (SFSI).

Financial sector reform

29. We recognize the importance of improving further confidence in the banking system in order to foster financial intermediation. In this context, the CBA intends to strengthen **banking supervision.** We continue to work to build the preconditions for risk-based supervision, including: risk-rating process; greater focus on bank management; and increased emphasis on banks' internal policies, controls and business strategies. The supervisory authorities covering banking, insurance, and the securities market will enter into bilateral or

multilateral memoranda of understanding for information sharing. We will also submit to Parliament, by end-June, an amendment to the Law on Banks and Banking to empower it to identify the ultimate beneficial owners of banks, in the event of upward consolidation. We expect the law to be passed by the end of 2005. We also intend to submit to Parliament an amendment to the Law on Banks and Banking that requires external auditors of commercial banks to enter into tri-party agreements to report to the CBA issues of material importance arising from their audits, including on unsound operations and mismanagement. The amendment should empower the CBA to have access to the information from the external audits. We expect the amendment to be passed by December 2005.

30. With a view to encouraging **banking sector consolidation** and new shareholder entry, we will proceed with a planned increase in minimum capital requirements to US$5 million effective July 1, 2005, with eligible capital to remain as is currently defined. Banks that fail to meet the minimum capital requirement will be promptly liquidated or converted into nonbank credit institutions.

31. We plan to address key weaknesses in **corporate governance of banks**. We will clarify in law the definition and separation of duties and rights of shareholders, boards of directors, and executives. Duties of boards of directors should include (i) responsibility for the safe and sound operation of the institution; (ii) being informed of their banks' operating condition, in part through ensuring adequate external and internal audit process; and (iii) providing accurate reporting to the public and the CBA. Furthermore, to improve the **credit culture**, we will continue the work on enhancing creditors' rights, including streamlining court procedures and improving the registration system for secured lending.

32. We also plan to develop the non-bank financial sector by creating an appropriate supervisory and regulatory framework. In the insurance sector, we plan to implement regulations to improve accounting, auditing, and financial reporting; solvency and reserves; and oversight of insurance. With regard to the pension system, we are considering a funded system that would balance competing objectives of raising current pensions and diverting resources to individual accounts while maintaining fiscal sustainability. As a first step, we will carry out extensive actuarial projections on various reform options before determining the optimal approach. With regard to the mortgage market, we will focus on the development of the primary mortgage market to promote housing for moderate and low income households. Before going forward, we will evaluate the costs and benefits of a liquidity facility targeted to this segment of the population to provide a basis for the extent of government support.

V. Other Structural Reforms

33. We are committed firmly to following through on our efforts to improve **governance** and reduce corruption. We will continue to implement the anti-corruption strategy action plan, and focus more on monitoring law enforcement and raising public awareness and participation. As an important step, we will expand the coverage of the law on financial

disclosure by public officials. We will also work with international donors to resolve financial and human resource constraints in combating corruption.

34. We will build on our success in the **energy sector** and address the remaining issues. With the assistance of the World Bank, we intend to audit Armenergo's balance sheet for 2004, followed by the creation of a liquidation commission, with the aim to complete the liquidation process in a transparent way by end-2005. To ensure the proper functioning of, and transparency in, the energy sector, the Public Service Regulatory Commission plans to pass resolutions on audit procedures for power sector entities, and market rules including power export model contracts, and dispatching relationships between the system operator and other entities of the system. We will also work closely with the World Bank to improve further energy sector corporate governance, including by setting up independent boards of directors for the remaining state owned energy sector enterprises. To further reduce the losses of the water and irrigation sector, we will continue to increase the collection ratio and raise tariffs along the lines of the Integrated Financial Rehabilitation Plan, with the aim of reaching operations and maintenance cost recovery level by 2007. In the meantime, we will try to minimize the impact of tariff increases on the poor through targeted support.

V. Program Monitoring

35. Progress in implementing the program will be monitored through quantitative performance criteria and indicative targets set forth in the attached Table 1 as well as structural performance criteria and benchmarks as listed in Table 2. The TMU attached to this Memorandum defines the quantitative targets of Table 1, the program adjustors, and specifies reporting requirements. Semiannual performance criteria will be monitored under two reviews. The quantitative targets include floors on tax revenues of the central government and social contributions (see Table 1). There will be two structural performance criteria on submission to Parliament of an amendment to the Law on Banks and Banking, one relating to strengthening banking supervision, and the other to improving corporate governance (see Table 2). There will also be two prior actions, one relating to the finalization of an action plan for reforms of tax policy and customs administration, and one relating to the publication of the list of names of the 300 largest taxpayers.

Table 1. Armenia: Quantitative Targets, 2004–2005 1/
(End of period ceilings on stocks, unless otherwise specified)

	2004	2005			
	Dec.	Mar.	Jun.	Sept.	Dec.
	Act.	Est.	Prog. 2/	Prog. 3/	Prog. 2/
	(in billions of drams)				
Net domestic assets of the CBA 4/	-21.6	-52.7	-53.8	-41.9	-28.1
Net banking system credit to the government	-17.2	-36.5	-17.2	-8.0	-6.3
Domestic arrears of the central government and the State Fund for Social Insurance	0.0	0.0	0.0	0.0	0.0
Tax revenues of the central government (floor) 5/	266.7	64.1	137.3	220.7	310.0
Balance of the central government on a cash basis (floor) 5/	-31.6	2.9	-25.0	-49.1	-61.8
Reserve money (band/level) 3/	132.0	123.6	(122-127)	(129-134)	(148-154)
Contributions to the State Fund for Social Insurance 3/ 5/	48.8	13.9	29.8	46.4	64.8
	(in millions of dollars)				
Contracting or guaranteeing of new nonconcessional external debt 5/ 6/	0	0	0	0	0
External arrears (continuous criterion)	0	0	0	0	0
Net official international reserves (floor)	330.1	375.5	379.0	373.3	389.2

1/ All items as defined in the Technical Memorandum of Understanding.
2/ Performance criterion.
3/ Indicative target.
4/ NDA valued at program exchange rate (500 dram per U.S. dollar).
5/ Cumulative flow from the beginning of the calendar year until the end of the month indicated.
6/ Includes debt with maturity of more than a year as well as obligations with maturity of one year or less, excluding normal import-related credit and sales of treasury bills to nonresidents.

Table 2. Structural Measures for Fiscal and Financial Sector Reform in 2005

Measure	Type of Conditionality	Target Date (End of Period)
Tax policy		
Submit to parliament an amendment to the VAT law to become effective January 1, 2006, that will reduce the list of goods exempt from VAT payment at the border as specified in paragraph 24 of the MEFP and introduce a time limit after which VAT must be paid under the capital deferral system, both effective 2006.	Structural Benchmark	June 2005
Tax administration		
Finalize, in consultation with Fund staff, an action plan for 2005-06 approved by the government, with a timeline for reforms of tax policy and tax and customs administration that are closely in line with Fund technical assistance reports.	Prior Action	
Publish the names of the 300 largest taxpayers.	Prior Action	
Improve the STS's ability to conduct audits by passing a law on tax audits, including provisions to: permit off-site audits and several types of audits at a time; extend the time limit for budget audits of large enterprises to at least 3 months; and, extend the time limit for drafting the audit report to at least 3 weeks.	Structural Benchmark	June 2005
Approve an annual audit plan for large enterprises based on risk-classification and specifying priorities and targets.	Structural Benchmark	December 2005
Customs administration		
Agree on the terms of reference for an operational review of the State Customs Committee by a specialized international company in preparation for tender.	Structural Benchmark	June 2005
Increase by 5 percentage points the share of the number of declarations of imports for which the approved customs value is determined on the basis of declared transaction prices.	Structural Benchmark	December 2005
Financial Sector		
(i) Submit to Parliament an amendment to the Law on Banks and Banking to empower the CBA to identify ultimate beneficial owners, in the event of upward consolidation; and (ii) pass the amendment.	(i) Structural Performance Criterion (ii) Structural Benchmark	(i) June 2005 (ii) December 2005
(i) Submit to Parliament an amendment to the Law on Banks and Banking that defines the separate duties and rights of shareholders, boards of directors, and executives of banks; requires disclosure of potential conflicts of interest of board members; and requires public disclosure of information on ownership and control of banks, including list of founders and copies of the company's statues; and (ii) pass the amendment.	(i) Structural Performance Criterion (ii) Structural Benchmark	(i) June 2005 (ii) December 2005

GOVERNMENT OF ARMENIA
TECHNICAL MEMORANDUM OF UNDERSTANDING

This memorandum defines the benchmarks, performance criteria, indicative targets, adjustors, and reporting modalities referred to in the Memorandum of Economic and Financial Policies (MEFP).

I. QUANTITATIVE TARGETS

1. The program targets a minimum level of **net official international reserves (NIR)** of the Central Bank of Armenia (CBA). The stock of such reserves will be calculated as the difference between total official gross international reserves and official gross reserve liabilities. Total gross official international reserves are defined as the CBA's holdings of monetary gold (excluding amounts pledged as collateral or in swaps), holdings of Special Drawing Rights (SDRs), any reserve position in the IMF, and holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments). Gross reserves held in the form of securities and other financial instruments are marked to market. Gross reserves are reported separate from the balance on the government's Special Privatization Account (SPA) and exclude capital subscriptions in foreign financial institutions and illiquid foreign assets. Official reserve liabilities shall be defined as outstanding liabilities to the IMF and convertible currency liabilities of the CBA to nonresidents with an original maturity of up to and including one year. NIR is monitored in U.S. dollars, and, for program monitoring purposes, assets and liabilities in currencies other than the U.S. dollar shall be converted into dollar-equivalent values using the exchange rates as specified in Attachment III, Table 1.

2. The program targets a maximum level of **net domestic assets (NDA)** of the CBA. For program purposes, NDA is defined as reserve money minus NIR plus medium- and long-term liabilities (i.e. liabilities with a maturity of one year or more) of the CBA. To evaluate program targets, the dram-equivalent values of NIR and medium- and long-term liabilities are calculated at the program exchange rate of dram 500.00 per U.S. dollar. NDA is composed of net CBA credit to the general government; outstanding credit to domestic banks by the CBA (including overdrafts) minus liabilities not included in reserve money (exclusive of accrued interest), and other items net.

3. **Reserve money** targets are indicative and include a floor and a ceiling. They are subject to a daily bound of plus or minus 2 percent computed from the quarterly average standard deviation of excess reserves held by banks in percent of quarterly reserve money during the previous four years. Reserve money is defined as the sum of currency issued, required and excess reserves, and current and time deposit accounts of certain resident agents.[3]

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[3] Liquidity absorbing transactions under reverse repurchase agreements, the CBA's deposit facility, and foreign currency swaps are netted out from claims on banks, i.e., they are excluded from the reserve money definition.

4. **The stock of net credit from the CBA to the government** includes the CBA's holdings of treasury bills and treasury bonds less all types of government deposits with the CBA (including deposits of donor-financed project implementation units, the Lincy foundation, and balances of proceeds from the sale of humanitarian assistance). Treasury bonds are valued at the purchase price and excluding accrued interest and treasury bills are valued at the purchase price plus the implicit accrued interest.

5. **Net credit from commercial banks to the government** includes: (1) gross commercial bank credit to the government less government deposits with commercial banks (including the counterpart funds of certain government onlending to the economy financed by the Lincy Foundation and the World Bank); and (2) banks' holdings of treasury bonds (valued at the purchase price and excluding accrued interest) and treasury bills (valued at the purchase price plus the implicit accrued interest). **Net credit of the banking system to the government** is the sum of net credit from the CBA and net credit from commercial banks to the government.

6. **External debt ceilings** apply to all forms of new nonconcessional medium- and long-term external debt[4] with original maturities of more than one year, which are contracted or guaranteed by the government or the CBA or any other agency acting on behalf of the government. It does include debt with maturity of one year or less. Excluded from the limits are changes in indebtedness resulting from refinancing credits or rescheduling operations, sales of treasury bills or treasury bonds to nonresidents (provided the sales go through the regular auction mechanism and involve no exchange rate guarantees), concessional loans, and credits extended by the IMF.[5] Except for normal import-related credits, there is a zero limit on short-term external debt (obligations with original maturities of up to one year) contracted or guaranteed by the government or the CBA. Transactions subject to debt ceilings shall be valued in the contracted currencies and converted into U.S. dollars at the average monthly market exchange rate in the month when the commitment was contracted.

7. **External arrears** will consist of all overdue debt-service obligations (i.e., payments of principal and interest) arising in respect of public sector loans contracted or guaranteed including unpaid penalties or interest charges associated with these arrears.

8. **Balance of the central government on a cash basis** is defined as the sum of domestic banking system net financing, domestic nonbank net financing, and external net

[4] The term "debt" shall have the meaning set forth in Section 9(a) of the Guidelines on performance criteria on external debt, as modified by the Executive Board Decision No. 12274-(00/85) of August 24, 2000.

[5] For program purposes, a loan is considered concessional if the grant element is at least 35 percent calculated using a discount factor based on the Commercial Interest Reference Rates (CIRRs) published by the OECD plus margins depending on the loan maturity. The margins are: 0.75 percent for repayment periods of less than 15 years, 1 percent for 15–19 years, 1.15 percent for 20–29 years, and 1.25 percent for 30 years or more. The average of the CIRRs over the last ten years will be used for loans with a maturity of at least 15 years and the average of the CIRRs for the preceding six months will be used for shorter maturities.

financing to the government. **Net banking system credit to the government** equals the change during the period of net credit to the government. **Nonbank net financing** equals the sum of: (1) the change during the period of outstanding treasury bills and bonds to nonbanks (including accrued interest for treasury bills and excluding accrued interest for treasury bonds);[6] and (2) any other disbursement or transaction that increases nonbanks' claims on the central government plus withdrawals from the special privatization account or the treasury subaccount containing privatization proceeds in dram, less amortizations made by the central government to private resident nonbank agents. **External net financing** equals total debt-increasing disbursements from non-residents to the central government less total amortizations from the central government to non-residents. All foreign-currency denominated transactions are recorded in drams using the prevailing exchange rate at the time of the transaction.

9. The project implementation units, which carry out projects financed by the US-based Lincy Foundation, maintain accounts at the CBA. These grants are recorded in the fiscal accounts as external grants on the revenue side and as foreign-financed capital expenditure on the expenditure side. In addition, any loans extended by the US-based Lincy foundation to finance investments and that are intermediated through the banking system are recorded in the financial accounts as a financing item below the line and are thus excluded from net lending.

10. Foreign currency proceeds from selling enterprises are deposited into the Special Privatization Account (SPA). The account is held at the CBA and the proceeds are invested abroad together with the CBA's international reserves. These proceeds are included in the definition of the monetary accounts of the CBA as part of net foreign assets with a counter entry in other items net. Any budgeted withdrawal from the SPA will be accounted for as privatization proceeds used to finance the budget and will be recorded below the line. Any unanticipated withdrawal from the SPA will be recorded below the line as privatization receipts; these withdrawals, however, will be replenished during the same fiscal year. Domestic currency proceeds from selling enterprises to residents are deposited in a subaccount of the treasury single account.

11. **Tax revenues** of the central government are defined in accordance with Government Financial Statistics (GFS), 1986, section IV.A.1. Total revenues collected by the State Tax Service (STS) and the Customs Committee (CC) are classified as follows: VAT (of which: presumptive tax on cigarettes, petroleum, and diesel), excises (of which: presumptive tax on cigarettes, petroleum, and diesel), enterprise profit tax, personal income tax, land tax, customs duties (of which: presumptive tax on cigarettes), other presumptive taxes, simplified tax, property tax, and other taxes (of which stamp duties and environmental taxes). **Payroll contributions to the State Fund for Social Insurance (SFSI)** are not included in tax

[6] Domestic nonbank holdings of treasury bills and treasury bonds are defined as total outstanding treasury bills and bonds less holdings by the banking system and the SFSI.

revenue. For evaluating the performance criterion on tax collection, recorded tax revenues will exclude any tax payment related to non-programmed transfer, loan, or recapitalization operation carried out with state-owned companies or any VAT refunds in arrears.

12. The program targets ceilings for the stock of **domestic arrears of the central government and the State Fund for Social Insurance** (SFSI). Domestic arrears are defined as follows. With respect to wages, contributions to the pension fund, family allowances, and amortization and domestic interest payments, the stock of arrears is defined as all unpaid claims outstanding at the end of the month. This excludes technical arrears of up to AMD 0.5 billion that could arise because of minor delays in the execution of these expenditures. For all other expenditure categories, arrears are defined as the stock of unpaid claims, as verified by the recipient of the goods and services, which has been outstanding for more than 30 days as of the end of the month. However, at year-end all outstanding claims must be settled as required in the budget law.

II. ADJUSTERS

13. The quantitative performance criteria and benchmarks under the program are subject to the following adjusters:

- **Foreign-financed project loan disbursements:** the target on the cash balance of the central government will be adjusted downward (upward) by the full amount of cumulative higher (lower) than programmed foreign-financed project disbursements. The programmed amounts are shown in Table 2 below.

- **World Bank budget support:** the following targets will be adjusted by the full amount of lower than programmed World Bank direct budget support: NIR (downward), NDA of the CBA (upward), and net credit to the government (upward). The programmed amount is shown in Table 3 below.

- **KfW loan disbursements**: the target on the NDA of the CBA will be adjusted upward (downward) by the full amount of any non-programmed disbursement (repayment) from (to) KfW. The adjustment will be made at program exchange rates. The programmed amount is shown in Table 4 below.

III. Prior Actions, Structural Performance Criteria, Benchmarks, nd Other Measures

14. **Changes to the VAT law** (Structural Benchmark). See Paragraph 24 of the MEFP. Only the following currently exempt import lines will be moved to the capital deferral system: 8426, 8429, 8443, 8452, 8453, 8484, 8485, 8475, 8478, 8479, 8532, 8533, 8534, 8541, 8542, and 8545.

15. **Action plan** (Prior Action). The plan will contain a timeline for the implementation of a set of measures over 2005-2006 in the areas of tax policy and tax and customs administration in line with technical assistance recommendations of the IMF Fiscal Affairs Department. The plan will be prepared jointly by the Ministry of Finance and Economy, the State Tax Service, and the State Customs Committee in consultation with Fund staff. Subsequently, it will be approved by the government.

16. **Largest taxpayers** (Prior Action). The names of the 300 largest taxpayers will be published on a regular basis in the mass media.

17. **Law on tax audits** (Structural Benchmark). See Paragraph 26 of the MEFP.

18. **Audit plan** (Structural Benchmark). An audit plan for large enterprises with headquarters setting numerical targets for regional offices in terms of the economic sectors and types of taxpayers that are to be audited, as well as for the types of audits (partial audits, advisory visits, and VAT refunds examinations). The plan will be prepared on an annual basis with quarterly reporting and midterm reviews and with emphasis on partial audits. Comprehensive audits should be used only for high risk tax payers or when partial audits reveal serious underpayment of tax liabilities. The plan will be based on risk analysis and will be prepared with a view to extend it in 2006 to an encompassing audit plan.

19. **Operational Review of the State Customs Committee (SCC)** (Structural benchmark). Agree with IMF and World Bank staffs, by June 2005, the terms of reference for an operational review of the SCC to be conducted by a specialized international company. The broad objectives of the review should be to: i) assess the operational efficiency of customs processes, including in comparison with other similar countries; ii) identify any capacity constraints and shortcomings in administration, which hamper revenue collection; iii) recommend specific reforms aimed at enhancing operational efficiency and revenue mobilization; and iv) in so doing, identify priority areas for further technical assistance.

20. **Valuation of imports at declared transaction prices** (Structural benchmark). On the basis of reports obtained directly from the ASYCUDA system, demonstrate an increase of 5 percentage points, over 2004, in the number of declarations of imports (taxable at the border under ad valorem taxes), for which customs value is determined on the basis of the declared transaction price. Progress during the year will be reported quarterly, also on the basis of reports obtained directly from the ASYCUDA system. To support the use of

transaction prices, the customs valuation database will be published, and kept up to date, on the SCC website.

21. **Self-assessment of importers**. The report, to be prepared by July 2005, on the basis of end June information, will outline the specific actions undertaken by the government to encourage the use of direct trader input. The report will also provide the following data, on a quarterly basis, relating to the use of the direct trader system, namely: i) the number of traders registered; ii) the number of declarations processed by the direct trader method; iii) the total number of declarations processed; iv) the value of the declarations processed by the direct trader method; and v) the total value of declarations processed. Advertisements will be placed in the mass media to outline the opportunity the new law on [Electronic Signatures] provides in allowing direct input by traders from remote locations.

22. **Customs examination selectivity**. Reports will be provided quarterly, within 45 days of the end of each quarter, on the number and percentage of customs declarations selected for inspection, by country and selectivity lines. The reports will also outline progress towards the expansion of the examination selectivity module in ASYCUDA to all customs houses.

23. **Law on the Banks and Banking.** An amendment to the Law on the Banks and Banking will be submitted to the Parliament by end June 2005 (Structural Performance Criterion). The amendment will clearly stipulate that, in the event of upward consolidation, the CBA is empowered to identify beneficial owners on a chain of ownership as far as the CBA sees appropriate for supervisory purpose. The amendment will be passed by the Parliament by end-2005 (Structural Benchmark).

24. **Law on the Banks and Banking.** The amendment on the Law on Banks and Banking will define the separate duties and rights of shareholders, boards of directors, and executives of banks, notably the board of directors' responsibility for the safe and sound operation of the institution and reporting; require the disclosure of potential conflicts of interest of board members; and require the public disclosure of information on ownership and control of banks, including list of founders and copies of the bank's statues. Its submission to Parliament will be a Structural Performance Criterion for end-June 2005. The amendment will be passed by the Parliament by end-2005 (Structural Benchmark). The amendment will be in line with the concept note on corporate governance of banks prepared by the CBA.

IV. DATA REPORTING

25. The government will provide the IMF the information specified in the following table.

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
CBA[7]	CBA balance sheet	Summary	Weekly	Within 1 day of the end of each week
	CBA balance sheet	Summary at program exchange rates; and by chart of accounts at actual official exchange rates	Monthly	Within seven days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank and the consolidated balance sheet of commercial banks at program exchange rates; and by chart of accounts at actual official exchange rates	Monthly	Within 21 days of the end of each month
	International reserves	By chart of accounts; at (i) program exchange rates; and (ii) at actual official exchange rates	Weekly	Within 1 day of the end of each week
		By chart of accounts; at (i) program exchange rates; and (ii) at actual official exchange rates	Monthly	Within 21 days of the end of each month
	Foreign exchange market	Official exchange rates (buying and selling); interbank turnover; and volume of CBA interventions, including foreign exchange swaps	Weekly	Within 1 day of the end of each week
	Interest rates	Repo rate; interbank rate; by volume and maturity, T-bill rate, bond yield; and by maturity, deposit and lending rates	Monthly	Within 7 days of the end of each month
	CBA operations	Repo (reverse repo) operations; Lombard credits; and deposit facility	Monthly	Within 7 days of the end of each month
	Bank liquidity	Reserves and excess reserves	Biweekly	Within 7 days of the end of each month
	Special privatization account (SPA)	Monthly flows	Monthly	Within 7 days of the end of each month
	Banking indicators	Capital adequacy; asset composition and quality; profitability; liquidity; open FX positions; and compliance with prudential norms (Tables 5 and 6)	Quarterly	Within 30 days of the end of each quarter
	CPI	Index of core inflation	Monthly	Within 21 days of the end of each

[7] As defined in CBA resolution No. 201 (December 6, 1999).

				month
	Other monetary data	IFS format	Monthly	Within 45 days of the end of each month
Customs Committee	Report on the operations of the post verification unit	The report will include: information on the number of audits conducted, the number of infractions found, the amounts involved, and remedial measures taken	Quarterly	Within 30 days of the end of each quarter
	Report of the operations of the internal audit unit	The report will include: the number of written appeals, complaints, and requests submitted to the IAUCC; the sources of the written submissions (e.g. President's Office, the Prime Minister's Office, other Government officials, National Assembly, line Ministries, Law Enforcement bodies, individuals, non-government organizations); the IAUCC's actions in response to the written submissions; the number and type of audits/investigations undertaken by the IAUCC; the overall results of the audits/investigations undertaken; and the actions taken by the IAUCC in response to the results of the audits/investigations undertaken	Quarterly	Within 30 days of the end of each quarter
	Import data	1. Total value of recorded imports, breaking out raw diamond imports; 2. Total value of non-duty free recorded imports; 3. Number of total transactions involving recorded imports; 4. Number of total transactions involving non-duty free recorded imports 5. Value of recorded imports where customs value was assessed using transaction prices, breaking out raw diamond imports; 6. Value of non-duty free recorded imports where customs value was assessed using transaction prices; 7. Number of transactions involving recorded imports where customs value was assessed using transaction prices; and 8. Number of transactions involving non duty free recorded imports where customs value was assessed using transaction prices	Quarterly	Within 30 days of the end of each quarter
Ministry of Finance and	T-bill and coupon bond financing	By holders, i.e., CBA, resident banks, resident nonbanks, and nonresidents	Monthly	Within 7 days of each month

Economy (MFE)	External debt	Disbursements and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the CBA, and state-owned companies (by company); any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears	Monthly	Within 21 days of the end of each month (preliminary data) and within 45 days of the end of each month (final data)
	Revenue collection	Total revenue collected separately by the SFSI, the STS, and the CC, including revenue by individual tax	Monthly	Within 7 days of the end of each month
	Expenditure arrears	Government and SFSI separately (Table 7)	Monthly	Within 20 days of the end of each month for SFSI arrears and within 45 days of the end of each month for government arrears
	Privatization receipts	Balance on the SPA; gross inflows into and outflows from the SPA during the month, specifying the nature of each transaction	Monthly	Within 7 days of the end of each month
	Treasury single account (TSA)	Detailed breakdown of central treasury account, including deposits at the central treasury, pension fund, community budgets, off budget account, monetization account, state budget account and the Republic correspondent account—flows during the month and end of month stocks.	Monthly	Within 7 days of the end of each month
	Consolidated central government	State budget and SFSI	Monthly	Within 30 days of the end of each month
	Consolidated general government	Central and local governments 1/	Quarterly	Within 60 days of the end of each quarter
	Consolidated general government	Central and local governments 1/	Annual	Within 180 days of the end of each year
MFE/SFSI	Budget execution	All cash receipts, cash expenditures, including debt-service payments, and external and domestic borrowing operations; expenditure data will be provided according to both economic and functional classifications, consistent with the GFS methodology	Monthly	Within one month following the end of each quarter.
NSS	Balance of payments	Detailed export and import data	Monthly	Within 28 days of the end of each month

		Detailed export and import data	Quarterly	Within 45 days of the end of each quarter
	GDP	Estimates	Monthly	Within 30 days of the end of each month
	CPI	By category	Monthly	Within 5 days of the end of each month
STS	Tax arrears	By type of tax	Monthly	Within 30 days of the end of each month
		For or the 30 largest debtors and for all major companies in the energy, water, and irrigation sectors	Quarterly	Within 30 days of the end of each quarter
	VAT refund claims in arrears	Detailed data on VAT refunds in arrears which include all outstanding VAT refunds that have not been accepted (and refunded), or offset (in full or in part), or rejected (in full or in part) after the 90 day processing period. Number of refund applications processed per month.	Monthly	Within 30 days of the end of each month

1/ Until NCE quarterly data reporting has been established, central government is defined as state budget (budgetary) + SFSI (social security fund). Once NCE quarterly data reporting has been established, central government is defined as state budget (budgetary) + NCEs that belong within the general government (extrabudgetary) + SFSI (social security fund). General government = central government + local governments.

Table 1. Armenia: (Program) Exchange Rates of the CBA
(As of December 30, 2004 for dollars per currency rates. Drams per currency rates are calculated using the 500 drams per U.S. dollar rate)

Country	Drams Per Currency	Dollars Per Currency
Australian dollar	389.85	0.779701
Canadian dollar	406.67	0.813334
Swiss franc	441.45	0.882904
Danish krone	91.47	0.182941
Euro	680.40	1.360798
Pound sterling	962.90	1.925799
Japanese yen	4.838	0.009676
Norwegian krone	82.40	0.164807
Swedish krone	75.85	0.151696
U.S. dollar	500.00	1
SDR	791.92	1.583834
Gold 1/	7,129.43	14.25885

1/ Per gram.

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

2005			
March	June	September	December
9.5	17.1	26.6	44.2

1/ Cumulative from December 2004, at program exchange rates.

Table 3. Armenia: World Bank Lending1/
(In billions of drams)

2005			
March	June	September	December
0	0	0	10.0

1/ Cumulative from December 2004, at program exchange rates.

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

2005			
March	June	September	December
0	0	1.5	3

1/ Cumulative from December 2004, at program exchange rates.