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2026-2028 GOVERNMENT DEBT MANAGEMENT STRATEGY OF THE REPUBLIC OF ARMENIA

Table of Contents

[Introduction 3](#_Toc205988168)

[1. Objectives and scope of the RA Government debt management strategy 4](#_Toc205988169)

[2. Developments in the RA Government debt management since the beginning of 2024 5](#_Toc205988170)

[3. Overview of the costs and risks of the RA Government debt portfolio 8](#_Toc205988171)

[4. RA Government Debt Management Strategy for 2026-2028 14](#_Toc205988172)

[4.1. Macroeconomic developments and forecasts 14](#_Toc205988173)

[4.2. Targets and measures to be implemented 16](#_Toc205988174)

[4.3. Selection of the RA Government Debt Management Strategy 18](#_Toc205988175)

[4.4. Cost and risk analysis of the selected strategy 20](#_Toc205988176)

[4.5. Benchmark indicators 28](#_Toc205988177)

[4.6. Sensitivity analyses 29](#_Toc205988178)

[4.7. Conclusions 31](#_Toc205988179)

[Appendix 33](#_Toc205988180)

# Introduction

The RA Government Debt Management Strategy represents the strategy for mobilizing the necessary borrowing resources to finance the state budget deficit and refinance existing debt, as well as for managing the costs and risks of the government’s debt portfolio. It is a three-year program that is reviewed and published on an annual basis, contributing to the predictability and transparency of government debt management.

The RA Government Debt Management Strategy clarifies the borrowing policy, including benchmark indicators for the Government debt management. It reveals and assesses the risks associated with the management of the government’s debt portfolio, and sets forth the principles, objectives, and measures of debt policy to be implemented in the medium term.

The RA Government Debt Management Strategy is developed within the framework of the main fiscal policy objectives set out in the Medium-Term Expenditure Framework . These objectives assume that the state budget will continue to run a deficit over the medium-term horizon; however, in accordance with fiscal rules, the deficit is planned at a level that ensures the sustainability and manageability of the government debt.

To establish an acceptable government debt portfolio, the Ministry of Finance of the Republic of Armenia conducts analyses of costs and risks. These analyses enable the assessment of cost and risk indicators of the government debt portfolio, as well as the potential impact of shocks on them. The RA Government Debt Management Strategy presents and analyzes the market risks of the government debt portfolio, including exchange rate and interest rate risks, as well as refinancing risk. When formulating the strategy, constraints on the RA government debt management, such as the capacity of the domestic market or the ability to access external loans, were also taken into account.

Overall, the RA Government Debt Management Strategy represents the preferred option among possible risk-cost trade-offs, with the selection based on meeting financial needs at acceptable levels of cost and risk.

# Objectives and scope of the RA Government debt management strategy

The RA Government Debt Management Strategy is developed in accordance with the provisions of the Law of the Republic of Armenia “On Public Debt” adopted in 2008.

According to the Law of the Republic of Armenia “On Public Debt” the main objective of the RA Government debt management is the assurance of a permanent capacity to meet the Government’s financial needs, while reducing debt servicing costs over the long term. Another objective of the RA Government debt management is to establish an optimal structure of the government debt, taking into account potential risks. In other words, the main objective of the Government’s debt management is to ensure, over the medium and long term, the permanent ability to meet the government’s financing needs and fulfill payment obligations at the lowest possible cost and with a prudent level of risk in the debt portfolio.

The Law of the Republic of Armenia “On Public Debt” also defines the objectives for raising public debt, which include financing the state budget deficit, ensuring the maintenance of current liquidity, and preserving and developing the domestic government debt market.

The RA Government Debt Management Strategy covers only the debt of the Government of the Republic of Armenia; the analyses conducted do not include the external debt of the Central Bank of the Republic of Armenia. The latter is undertaken on behalf of and by the Central Bank. According to the RA Law “On Public Debt,” the objectives of the Central Bank’s debt management are determined by the RA Law “On the Central Bank of the Republic of Armenia.”

# Developments in the RA Government debt management since the beginning of 2024

As of the end of 2024, the RA Government debt amounted to AMD 4,892.8 billion, representing 48.0% of GDP. The actual government debt-to-GDP ratio corresponds to the programmed level set forth in the 2024 state budget and is lower by 0.2 percentage points compared to the same indicator of the previous year.

As at the end of 2023, the Government debt-to-GDP ratio remains below the 50% threshold established by fiscal rules and is within a more lenient range of expenditure constraints or rules that apply when the ratio exceeds the 40% threshold.

Almost all benchmark indicators set forth in the 2025–2027 strategy were within the targeted ranges based on the actual results of 2024. The only slight deviation was observed in the average time to maturity indicator, which stood at 6.9 years compared to the benchmark minimum of 7 years. This was primarily due to the lower actual average maturity of treasury bonds compared to the programmed average maturity, influenced by market demand.

1. Performance of benchmark indicators defined by the RA Government Debt Management Strategy for 2025-2027 in 2024

|  | Benchmark | 31.12.2024  actual |
| --- | --- | --- |
| **Refinancing risk** |  |  |
| Average time to maturity | 7 – 10 years | 6.9 years |
| Share of debt maturing within the coming three years in total debt | max 35% | 29.6% |
| Share of the Government treasury bonds maturing within a year in the outstanding Government treasury bonds (at the end of the year) | max 20% | 14.3 % |
| **Interest rate risk** |  |  |
| Share of fixed rate debt in total debt | min 80% | 84.4 % |
| **Exchange rate risk** |  |  |
| Share of domestic debt in total debt | min 40% | 51.8% |
| Share of AMD denominated debt in total debt | min 40% | 50.8% |

Source: RA MoF calculations

In 2024, the state budget deficit was financed through net borrowing in the amount of AMD 399.9 billion. Of this, AMD 369.0 billion—or 92.3% of the total financing—was provided through net domestic borrowing (excluding promissory notes), while AMD 30.9 billion or 7.7% was financed through net external borrowing. This indicates that the financing of the state budget deficit in 2024 relied primarily on domestic/local currency sources.

Government treasury bonds have a significant share in the RA government debt operations carried out during 2024.

1. RA Government debt operations by instrument

| 2024 | Placement volume | Proceeds from Placement | | Redemption and/or Buyback Volume | Interest Paid | |
| --- | --- | --- | --- | --- | --- | --- |
| Government treasury bonds, billion AMD | 679.4 | 654.2 | | 285.2 | 219.8 | |
| Foreign currency denominated Government bonds, million USD | - | | - | - | | 69.1 |
| Foreign currency denominated Government bonds, billion AMD | - | | - | - | | 27.4 |
|  |  | Disbursement Volume | | Redemption Volume | Interest Paid | |
| External loans, million USD |  | 504.1 | | 421.6 | 168.9 | |
| External loans, billion AMD |  | 196.9 | | 166.0 | 66.3 | |

Source: RA MoF

During 2024, the weighted average yield of primary placements of government treasury bonds amounted to 9.84%, decreasing by 0.99 percentage points compared to 10.83% in the previous year. During the same period, the weighted average maturity of government treasury bonds placed amounted to 1,771 days or 4.9 years, compared to 2,381 days or 6.5 years in the previous year.

Excluding the direct placement of bonds with a face value of AMD 13.8 billion in December 2024, the weighted average yield of primary placements in 2024 would still be 9.84%, which is 1.39 percentage points lower than the corresponding figure for the previous year (11.23%, excluding direct placements). Excluding the direct placements of bonds in exchange for the assignment of monetary claims (property rights) of certain financial institutions, carried out in 2023–2024 in accordance with the RA Government Decision No. 2326-N of December 28, 2023 (as amended by Decision No. 1638-N of October 17, 2024), the weighted average maturity of primary placements in 2024 would amount to 4.8 years, compared to 5.4 years in the previous year.

In 2024, despite the notable decline in yields, the weighted average maturity of primary placements of government treasury bonds decreased by 237 days (or 0.6 years), compared to the previous year. This was mainly due to moderate demand for long-term bonds amid a saturated domestic market.

During the first quarter of 2025, a significant milestone in public debt management of the Republic of Armenia was the successful placement of foreign currency-denominated government bonds in the international capital market on March 12. The issuance amounted to USD 750 million with a 10-year maturity, a placement yield of 7.10%, and acoupon rate of 6.75%. This marked Armenia’s fifth issuance of foreign currency-denominated government bonds in the international capital market.

According to the 2025 State Budget of the Republic of Armenia, the issuance of foreign currency government bonds was planned at USD 500 million (AMD 193.6 billion). The additional USD 250 million issuance aimed to mitigate potential risks associated with financing sources of the 2025 budget deficit, while avoiding pressure on the domestic debt market. Furthermore, this measure will support the stability of balance of payments and enhance international reserves through increased foreign currency inflows. The actual proceeds from the USD 750 million bond placement in 2025 totaled AMD 287.4 billion (equivalent to USD 731.4 million).

The previous issuance of 10-year foreign currency-denominated government bonds took place on February 2, 2021, with a placement yield of 3.875%. At that point, the yield of the benchmark 10-year U.S. Treasury bond was 1.039%, leading to a 2.836 percentage point spread—an indicator of the country's risk premium. Importantly, for the bonds issued in 2025 with a yield of 7.1%, the yield on the benchmark 10-year U.S. Treasury bond was 4.24%, while the spread relative to the benchmark amounted to 2.86 percentage points. In other words, the 3.2 percentage point increase in the yield of Armenia’s foreign currency government bonds compared to the previous issuance is almost entirely attributable to the rise in U.S. Treasury yields. Armenia’s country risk premium in international markets has remained nearly unchanged.

On March 24, 2025, the redemption of foreign currency-denominated government bonds maturing in 2025 with a 7.15% coupon yield was also executed, with an outstanding value of USD 313.166 million.

# Overview of the costs and risks of the RA Government debt portfolio

At the end of 2024, the cost and risk indicators of the RA Government provide a complete overview and characterize the RA Government debt portfolio.

1. RA Government debt cost and risk indicators as of 31.12.2024

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Foreign currency debt | AMD  debt | Total |
| RA Government debt (billion AMD) | | 2,409.3 | 2,483.6 | 4892.8 |
| RA Government debt (million USD) | | 6,075.4 | 6,262.8 | 12,338.2 |
| RA Government debt / GDP, (%) | | 23.6 | 24.4 | 48.0 |
| Cost Indicators | Interest payment / GDP, (%) | 0.93 | 2.17 | 3.10 |
| Weighted average interest rate (%) | 3.8 | 10.6 | 7.2 |
| Refinancing risk | Average Time to Maturity (years) | 6.6 | 7.2 | 6.9 |
| Debt Maturing in 1 year (% of total) | 11.6 | 14.4 | 13 |
| Interest rate risk | Average Time to Refixing (years) | 4 | 7.2 | 5.6 |
| Debt Refixing in 1 year (% of total) | 38.4 | 14.4 | 26.3 |
| Fixed Rate Debt (% of total) | 68.4 | 100 | 84.4 |
| Exchange rate risk | Foreign Exchange Debt (% of total) | - | - | 49.2 |
| Short-Term Foreign Exchange Debt / International Reserves, (%) | - | - | 19.5 |

Source: RA MoF calculations

The following indicators have been used to characterize the cost of the Government debt: Weighted average interest rate, Share of interest payments in state budget revenues and Share of interest payments in GDP.

At the end of 2024 the weighted average interest rate of the RA Government debt stood at 7.2%, comprising 10.5% for AMD-denominated debt and 3.8% for foreign currency debt.

The interest rates on external loans are directly influenced by developments in international financial markets, as Armenia, having been classified as a middle-income country, no longer has access to the highly concessional loans provided by international organizations. Thus, alongside the slowdown in inflation rates in international financial markets (excluding the Russian Federation), central banks have gradually eased their restrictive monetary policies. In contrast, in the Russian Federation, the policy interest rate has continued to rise steadily.

During the first half of 2024, central banks maintained the interest rates set at the end of the previous year; however, starting in July, these rates were gradually reduced. As a result, the U.S. Federal Reserve’s policy rate had declined to 4.25–4.5% by the end of December, compared to the 5.25–5.5% range at the beginning of the year. Following the decline in inflation rates, the European Central Bank continued to gradually lower its policy rate, thereby easing financial conditions. Consequently, the ECB’s refinancing rate stood at 3.15% at the end of December, down from 4.5% at the beginning of the year.

Due to these factors, the weighted average interest rate on external loans and borrowings stood at 3.5% at the end of the year, compared to 3.6% in the previous year. As for Government treasury bonds, the weighted average yield of Government treasury bonds amounted to 10.6% as of December 31, 2024, compared to 10.7% at the end of 2023.

During the year, the Central Bank significantly eased monetary conditions and reduced the policy interest rate by 2.25 percentage points, setting it at 7% in December. As a result, throughout 2024, the weighted average yield on primary placements of government treasury bonds declined by 1.0 percentage point compared to the previous year, falling from 10.8% in 2023 to 9.8% in 2024.

In 2024, the RA Government interest payments were AMD 313.6 billion compared to AMD 253.4 billion in the previous year. The interest payments made in 2024 accounted for 12.2% of state budget revenues, 10.6% of state budget expenditures, and 3.1% of GDP, compared to 10.7%, 9.9%, and 2.7%, respectively, in the previous year.

Exchange rate risk

The exchange rate risk has consistently been the most significant among market risks in the RA Government debt portfolio over the years. It is mainly measured by the following indicators: share of the foreign currency-denominated debt in total debt and share of short-term foreign currency-denominated debt in international reserves.

The current RA Government debt portfolio remains significantly exposed to a high exchange rate risk, as 49.2% of debt was denominated in foreign currency as of December 31, 2024. However, as a result of the consistent implementation of the Government debt management policy aimed at reducing exchange rate risk, this indicator has shown a downward trend since 2018. Over a five-year period, it has decreased by 30 percentage points, and for the first time in history, the share of AMD-denominated debt has exceeded the share of foreign currency-denominated debt. The latter declined by 4.9 percentage points compared to the previous year.

1. Share of foreign currency and AMD-denominated debt of the RA Government (%)

Source: RA MoF

At the end of 2024, USD-denominated debt prevailed in the structure of the RA Government foreign currency debt portfolio, accounting for 57.3%. When adjusted according to the currency composition of the SDR basket, this share increased to 67%. The structure of the RA Government foreign currency debt became more diversified compared to the end of the previous year, as reflected in the increased share of euro-denominated debt. Specifically, the share of SDR-denominated debt decreased by 4.4 percentage points, while the share of euro-denominated debt increased by 4.7 percentage points. Notably, in 2024, 81% of loan disbursements — including the entirety of budget support loans — were made in euros.

1. Dynamics of the RA Government foreign currency debt portfolio, 2019-2024

Source: RA MoF calculations

The share of short-term foreign currency debt in international reserves amounted to 18.2%, indicating that a sufficient amount of foreign currency assets is available to cover repayments of short-term foreign currency debt. This indicator increased by 7.1 percentage points compared to the previous year, mainly due to a decrease in international reserves.

Refinancing risk

The refinancing risk of the Government debt portfolio is assessed through the average time to maturity, the share of debt maturing in one year and in the coming three years, and the redemption profile of the Government debt.

As of December 31, 2024, the average time to maturity of the RA Government debt stood at 6.9 years, compared to 7.4 years in the previous period. Moreover, the average time to maturity of foreign currency-denominated debt amounted to 6.6 years, down from 6.8 years in the previous period, while for AMD-denominated debt it was 7.2 years, compared to 8.0 years. The reduction in the average time to maturity of the RA Government debt was driven by the shortening of maturities in government treasury bonds issued during 2024, as well as the gradual repayment of concessional long-term loans and their refinancing with relatively shorter-term debt instruments. However, from the perspective of refinancing risk, the average time to maturity indicator has not significantly deviated from the benchmark range set by the RA Government debt management strategy for 2025–2027.

1. Time to maturity of the RA government debt by main debt instruments (years)

Source: RA MoF calculations

As of December 31, 2024, the share of debt maturing in one year stood at 13%, marking an increase of approximately 4 percentage points compared to the previous year. This rise was mainly driven by foreign currency bonds maturing in 2025. Specifically, the share of foreign currency-denominated debt maturing in one year increased by 4.8 percentage points compared to the previous year and amounted to 11.6%, while the share of AMD-denominated debt increased by 2.6 percentage points to 14.4%.

As for the share of debt maturing in the coming three years, it amounted to 29.6% at the end of 2024, and the shares of foreign currency- and AMD-denominated debt maturing in the coming three years stood at 23.5% and 35.6%, respectively. These figures have remained largely unchanged compared to the end of the previous year.

As of the end of 2024, repayments of government external loans were scheduled through 2054, AMD-denominated bonds through 2052, foreign currency bonds through 2031, and guarantees through 2036.

1. Redemption profile of the Government debt by instruments as of December 31, 2024 (billion AMD)

Source: RA MoF

As a result of the foreign currency bond issuance in March 2025, the year 2035 — when USD 750 million in foreign currency bonds are scheduled for repayment — also stands out in terms of refinancing risk, in addition to the years already highlighted in the chart.

***Interest rate risk***

The interest rate risk of the Government debt portfolio is primarily assessed using the following indicators: the share of the fixed-rate debt in total debt, the share of debt to be refixed in one year in total debt and the average time to refixing.

As of the reporting period, 84.4% of the RA Government debt is at a fixed interest rate. AMD-denominated debt is entirely at a fixed rate, while 68.4% of foreign currency debt is at a fixed rate, down from 70.5% in the previous year. This indicates a slight increase in the interest rate risk of foreign currency debt compared to the previous year. In general, in a high interest rate environment, floating rate debt is preferable to fixed rate debt. This approach has been taken into account in decisions and is reflected in the RA Government debt indicators.

1. Structure of foreign currency debt by interest rate type

Source: RA MoF calculations

As for the share of debt to be refixed in the one year, as of the end of 2024, 26.3% of the RA Government debt is due for refixing in 2025. This indicator stood at 21.6% at the end of the previous year, indicating an increase in interest rate risk. The deterioration of the indicator was mainly caused by foreign currency bonds maturing in 2025.

As of the end of 2024, the average time to refixing stood at 5.6 years, which may be assessed as a moderate level of interest rate risk for the debt portfolio. This indicator is lower than the average time to maturity, as 15.6% of the debt has a floating interest rate, which is also subject to refixing during 2025.

The cost and risk indicators of the current debt portfolio of the RA Government show that the impact of refinancing risk has increased alongside a significant reduction in exchange rate risk in recent years.

In order to keep the main risks associated with the RA Government debt management within manageable limits—particularly to reduce the high exchange rate risk—the development of the domestic public debt market and the increase in the share of AMD-denominated debt in the RA Government debt portfolio are considered strategic objectives.

# RA Government Debt Management Strategy for 2026-2028

## Macroeconomic developments and forecasts

* In 2024, economic growth in the global economy and Armenia’s main partner countries stabilized and remained in positive range, supported by steady consumer demand, easing inflation, and ongoing fiscal and monetary policy adjustments in major economies. However, trends in the first quarter of 2025—driven by tariffs imposed by the new U.S. administration and their potential impacts, alongside a high level of uncertainty—have shaped expectations of a slowdown in economic growth over the coming years. Given these conditions, economic growth in partner countries (excluding Russia) is predicted to slow down in 2025 and remain below historical averages over the medium term.
* From 2022 to 2024, the RA economy registered an average real GDP growth of 8.9%, driven by several factors: increased inflows of people to Armenia following the start of the Russia-Ukraine conflict in late February 2022 and the sanctions imposed on Russia; a significant rise in tourism; the relocation of information technology companies to Armenia; increased demand for exports from Armenia to Russia; high growth in capital expenditures and residential construction financed by the state budget; as well as the economic impacts of the forced displacement of persons from Nagorno-Karabakh to Armenia since late September 2023 and the sharp increase in base metal production starting in November 2023.
* Economic growth continued in the first quarter of 2025, resulting in a 5.2% real GDP increase. High growth rates were recorded across all sectors of the economy except industry; however, economic growth was primarily driven by the services sector. In April, economic activity accelerated moderately, mainly due to a slower rate of decline in the industrial sector.
* Economic growth in 2025 is projected at around 5.1% as result of the potential impact of ongoing economic developments, the continued increase in the role of public capital expenditures, the operation of the Sotk mine, the launch of the Amulsar mine and structural reforms. In the medium term (2026–2030), average annual growth is expected to reach 5.3%. It should be noted that in recent years, the RA economic growth potential has increased, reaching 5.0–5.5%. To sustain this growth and achieve higher and more sustainable economic expansion, additional efforts are required to enhance productivity, attract investments, and boost exports. In this context, the RA Government will focus on the effective implementation of strategies aimed at fostering investments in human and physical capital, encouraging private sector investments, increasing employment and expanding exports.
* A significant decrease in both exports and imports is expected in 2025, given the slowdown in the growth rate of economic activity and a decline in the role of re-exports. As a result, the current account deficit is projected to deepen further in 2025, reaching 5.0% of GDP due to a deterioration in the trade deficit and a weakening of the services surplus. In the medium term, the current account deficit is expected to stabilize around its long-term equilibrium level as the positive effects observed during 2022–2024 gradually diminish.
* At the beginning of the medium-term period, to form "front-loaded" resources for urgent needs and structural reforms, following a certain increase in the fiscal deficit and public debt, fiscal policy will focus on implementing fiscal consolidation alongside improvements in the expenditure structure. The government debt burden is expected to reach 54–55% of GDP during 2026–2028, after which it is projected to approach 50% by 2030, driven by a continued decline in the budget deficit. Fiscal consolidation will be implemented through the optimization and enhanced efficiency of current expenditures, with a slight decrease in their proportion of GDP. This will be reinforced by a contractionary fiscal stance in the early medium term, with the fiscal policy position gradually returning to neutral by the end of the period in terms of its impact on aggregate demand, while simultaneously having a positive effect on the economy’s potential throughout the entire horizon. Overall, the priority for fiscal policy is the more efficient use of existing resources and the development of potential risk management capabilities, which, together with an increase in growth potential, should ensure fiscal sustainability over the long term.
* In 2025, inflation is expected to approach the targeted level of 3% and stabilize around this level in the medium term. Continuously monitoring economic developmens, the Central Bank will undertake appropriate measures to sustain inflation at 3% and maintain price stability over the medium-term horizon.
* The Russia-Ukraine conflict and the unprecedented sanctions imposed on Russia have created a new global reality, resulting in significant uncertainty for economic growth forecasts in Armenia, its partner countries, and the global economy. Under these conditions, there are bilateral risks to the economic growth forecasts for both the global economy and Armenia's partner countries, as well as for the RA within the framework of the MTEF; however, downside risks are relatively large.

1. Key indicators underlying the RA Government debt management strategy in 2023-2028

|  | 2023 actual | 2024 actual | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Economic growth (%) | 8.3 | 5.9 | 5.1 | 5.1 | 5.3 | 5.2 | |
| CPI (period average, %) | 2.0 | 0.3 | 2.5 | 3.0 | 3.0 | 3.0 | |
| Fiscal sector (% of GDP) | | | | | | |  | |
| Revenues and grants | 25.4 | 25.3 | 25.3 | 25.7 | 25.7 | 25.8 | |
| Expenditures | 27.4 | 29.0 | 30.8 | 30.2 | 29.1 | 28.6 | |
| Deficit (-) | -2.0 | -3.7 | -5.50 | -4.5 | -3.5 | -2.8 | |
| RA Government debt | 48.2 | 48.0 | 52.6 | 54.4 | 54.8 | 55.4 | |
| External sector | | | | | | |  | |
| Export of goods and services (million USD) | 14,338 | 18,618 | 11,516 | 11,278 | 11,862 | 12,463 | |
| Import of goods and services (million USD) | 14,532 | 19,087 | 12,552 | 12,395 | 13,062 | 13,704 | |
| Current account balance (% of GDP) | -2.3 | -3.8 | -5.0 | -4.7 | -4.7 | -4.7 | |
|  |  |  |  |  |  |  | |
| RA Government debt (billion AMD) | 4,572 | 4,893 | 5,772 | 6,490 | 7,077 | 7,739 | |
| Nominal GDP (billion AMD) | 9,493 | 10,193 | 10,976 | 11,887 | 12,893 | 13,976 | |

Source: 2026-2028 MTEF

## Targets and measures to be implemented

Along with maintaining debt at a manageable level, the RA Government will continue its efforts to improve the debt portfolio in order to preserve resilience to potential shocks, ensure the continued development and deepening of the government bond market, maintain access to both domestic and external financial markets, and diversify financing sources and instruments.

From this perspective, domestic currency-denominated debt in the RA Government debt structure will continue to remain at historically high levels. Efforts to maintain strong investor interest in the government securities market among external investors will persist, and cooperation with international financial institutions will be expanded. In addition to traditional instruments, this cooperation will involve new targeted financing tools to support the effective implementation of the Government’s strategies across various sectors.

Specifically.

* The RA Ministry of Finance will continue conducting buybacks and switches of government treasury bonds with the aim of smoothing the debt redemption profile and reducing refinancing risk, as well as enhancing the liquidity of the bonds and supporting the development of the secondary market.
* In an environment of declining government treasury bond yields, the volume of long-term bond placements will be gradually increased, with a primary focus on 10-year maturities as the main benchmark.
* The consolidation of outstanding government treasury bonds will continue through switch operations.
* To diversify debt instruments and in line with the opportunities provided by domestic debt market infrastructure, inflation-indexed bonds will be issued as needed, alongside the placement of traditional types of government securities.
* The issuance of targeted bonds will be considered to finance specific projects within the state budget. The feasibility of issuing green, climate-linked and social bonds will also be assessed in line with contemporary and advanced trends in debt management.
* Highlighting the importance of developing the retail government treasury bond market, and alongside efforts to strengthen public trust in the government, public awareness activities will continue targeting potential investors. Within this framework, steps will be taken to activate non-resident participation in the government treasury bond market, given that access to the retail online platform (gp.minfin.am) is available outside the Republic of Armenia.
* Cooperation with external creditors will continue, prioritizing engagement with creditors offering loans on more favorable terms and in freely convertible currencies. Within this framework, new projects are also planned to be implemented using the Results-Based Financing instrument, focusing on sectors such as water, healthcare and others.
* Under the baseline scenario of the strategy, no new Eurobond issuances are planned for 2026–2028. However, in the event of unforeseen macroeconomic shocks, financial disruptions or fiscal instability—where the government’s financing needs cannot be met through international financial institutions or the domestic market— the issuance of Eurobonds may also be considered.
* The quality and scope of information on Armenia's markets presented on the Bloomberg platform will be enhanced, incorporating a broader range of indicators.
* As part of the development of the RA Government Financial Management Information System, a new electronic system will be introduced for debt recording, servicing and other related processes.
* Following the adoption of the new Law on Public Debt, revised in line with international best practices, secondary legislation regulating the sector will be developed.
* The possibilities of introducing additional incentives for primary dealers operating in the government treasury bond market will be considered.
* One of the key factors for effective debt management is ensuring transparency and continuous communication with the public. To this end, the government will continue its open and transparent engagement with investors and the general public, as well as regular debt-related reporting.
* Regular awareness campaigns will be conducted to provide domestic and foreign investors with timely information on the socio-economic developments of the Republic of Armenia.
* In accordance with the legislative regulations for the stabilization account, the Government of the Republic of Armenia will ensure the availability of funds equivalent to at least 1% of the projected GDP for the given year, as outlined in the annual budget statement. In the event of unfavorable developments in domestic or external markets, these funds will safeguard the uninterrupted servicing of government debt and, if necessary, support the execution of the state budget.

## Selection of the RA Government Debt Management Strategy

The macroeconomic and fiscal indicators used in RA Government debt management strategy are consistent with the macroeconomic and fiscal framework projected in the 2026–2028 Medium-Term Expenditure Framework. According to the strategy, the Government Debt-to-GDP ratio is expected to reach 55.4% by the end of the medium-term horizon. To avoid a significant increase in interest payment burdens during the medium term and to ensure the availability of foreign currency inflows to the state budget, the shares of domestic and AMD-denominated debt in the debt portfolio are projected to decrease by an average of 0.9 percentage points per year compared to the end of 2024, although they will remain at historically high levels.

Deficit financing through net domestic borrowings will primarily be carried out through the placement of short-term government treasury bills with maturities of up to one year, medium-term coupon bonds with maturities of 3 and 5 years, long-term coupon bonds with maturities of 10 and 30 years, as well as saving coupon bonds with maturities of 6 months, and 1, 2, and 3 years.

Deficit financing through net external borrowings will be carried out by attracting project, budget support and results-based sectoral loans from bilateral and multilateral international creditors, without excluding the possibility of issuing Eurobonds in the international capital market.

The selection of the strategy is based on a study and analysis of a full set of cost and risk indicators. As a result of a comprehensive study of the costs and risk indicators characterizing the RA Government debt, a strategy was selected that will promote the development of the domestic debt market, ensure a moderate level of risks associated with government debt, and simultaneously minimize the growth of debt-related costs over the medium term.

When structuring deficit financing through net domestic borrowings, developments in the macroeconomic environment based on the baseline forecast scenario, the current level of liquidity, the stable demand for government treasury bonds, and the volume of debt servicing have been taken into account.

For the years 2026–2027, the state budget deficit financing through net borrowings is planned to be carried out through net domestic borrowings rather than net external borrowings; however, in 2028, net external borrowings are expected to exceed domestic borrowings.

1. State budget deficit financing through net borrowings for 2024-2028 (AMD billion)

|  | 2024 actual | 2025 State budget program | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
| --- | --- | --- | --- | --- | --- | --- |
| State budget deficit financing through net borrowings | 399.9 | 649.2 | 635.7 | 591.5 | 517.5 | 534.5 |
| of which: |  |  |  |  |  |  |
| Net domestic borrowings (without promissory notes) | 369.0 | 291.4 | 291.4 | 331.4 | 278.5 | 250.4 |
| Net external borrowings | 30.9 | 357.8 | 344.4 | 260.1 | 239.0 | 284.1 |

Source: RA MoF calculations and forecasts

1. The structure of deficit financing through domestic and external net borrowings for 2024-2028

Source: RA MoF calculations and forecasts

Over the medium term, the structure of state budget deficit financing has been allocated between net domestic and external borrowings so as to maintain the minimum 40% benchmark for the share of domestic debt within the government debt portfolio. Meanwhile, the specifics of the fiscal framework for 2026–2028 were taken into account, including the need for foreign currency arising from foreign currency outflows and the objective to avoid saturating the domestic market amid growing financing needs. Under these conditions, there is a need to adjust the annual volume of net issuances compared to the previous strategy without reducing the activity in the domestic debt market.

To meet financing needs, the government plans to raise funds over the medium term through both external loans and borrowings and the placement of government treasury bonds.

1. Financing through net borrowings for 2024-2028 (AMD billion)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2024 actual | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
| Total financing | 851.1 | 1,349.8 | 1,220.9 | 1,160.4 | 1,208.5 |
| of which: |  |  |  |  |  |
| External loans and borrowings | 196.9 | 362.4 | 445.5 | 386.6 | 434.7 |
| Government Treasury Bonds | 654.2 | 699.9 | 775.4 | 773.8 | 773.8 |
| Foreign currency bonds | - | 287.4 | - | - | - |

Source: RA MoF calculations and forecasts

1. Financing through foreign currency net borrowings for 2024-2028 (USD million)

|  | 2024 actual | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
| --- | --- | --- | --- | --- | --- |
| Total financing | 504.1 | 1,667.5 | 1,122.2 | 973.9 | 1,095.0 |
| of which: |  |  |  |  |  |
| External project loans and borrowings | 181.6 | 261.1 | 372.2 | 323.9 | 545.0 |
| Budget support loans | 322.5 | 675.0 | 750.0 | 650.0 | 550.0 |
| Foreign currency bonds | - | 731.4 | - | - | - |

Source: RA MoF calculations and forecasts

## Cost and risk analysis of the selected strategy

Under the baseline macroeconomic scenario outlined in the 2026–2028 Medium-Term Expenditure Framework, which takes into account the projected behavior of domestic and external debt markets, the financing needs of the Government of the Republic of Armenia are expected to decrease by approximately 10% in 2026 compared to 2025, primarily due to a reduction in the nominal deficit. At the same time, the interest burden on the RA Government debt is projected to gradually increase and stabilize toward the end of the medium-term period.

1. Forecasts of cost indicators of the RA Government debt portfolio

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2024 actual | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
| Interest Payment / GDP (%) | 3.1 | 3.6 | 3.6 | 3.7 | 3.8 |
| Interest Payment / State Budget Revenues (%) | 10.6 | 11.7 | 12.0 | 12.9 | 13.2 |
| Interest Payment / State Budget Expenditures (%) | 12.2 | 14.2 | 14.1 | 14.6 | 14.7 |

Source: RA MoF calculations and forecasts

Overall, under the baseline macroeconomic scenario, the Government debt-to-GDP ratio of the Republic of Armenia is projected to increase by an average of 0.9 percentage points annually over the medium term, reaching 55.4% by the end of 2028. The government debt interest payment-to-GDP ratio, interest payment-to-state budget revenue ratio, and interest payment-to-state budget expenditure ratio are expected to reach 3.8%, 13.2%, and 14.7%, respectively, by the end of the medium-term period. The selected debt strategy, developed under the baseline macroeconomic scenario, takes into account the potential of available financing sources and a comprehensive set of cost and risk indicators, aiming to meet the growing financing needs while containing the growth of the debt interest burden within acceptable risk levels.

From a risk management perspective, exchange rate, refinancing, and interest rate risks have been highlighted.

Exchange rate risk

The share of domestic debt in total debt is projected to decline at a moderate pace over the medium term—by an average of 0.9 percentage points per year—remaining within the established benchmark range and reaching 48.1% by the end of the period. This pace of decline in the share of domestic debt aligns with the volume of government bond placements consistent with expected market demand, as well as with a volume of placements that restrain the growth of the interest payment over the medium term.

1. Shares of RA Government domestic and AMD-denominated debt in total debt

|  | 2024 actual | 2025 forecast | 2026 forecast | | 2027 forecast | | 2028 forecast | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| AMD denominated debt / Total debt (%) | 50.8 | 48.0 | 48.0 | 48.1 | | 47.3 | |
| Domestic debt / Total debt (%) | 51.8 | 50.0 | 49.7 | 49.3 | | 48.1 | |

Source: RA MoF calculations and forecasts

To manage exchange rate risk and contain the growth of interest payments, the share of AMD-denominated debt in total debt is projected to decrease by an average of 0.9 percentage points annually over the medium term.

The share of foreign currency debt is projected to increase by 3.4 percentage points compared to the end of 2024, reaching 52.7% by the end of 2028. Therefore, exchange rate risk in the RA Government debt portfolio is expected to remain a significant risk in the coming years.

1. Structure of the RA Government foreign currency debt at year end, 2024-2028 (%)

|  | 2024 actual | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
| --- | --- | --- | --- | --- | --- |
| USD | 57.3 | 54.1 | 53.7 | 52.3 | 50.6 |
| SDR | 22.4 | 12.7 | 10.0 | 8.1 | 6.5 |
| EUR | 18.1 | 31.3 | 34.8 | 38.2 | 41.7 |
| JPY | 2.0 | 1.6 | 1.4 | 1.2 | 1.0 |
| AED | 0.0 | 0.0 | 0.0 | - | - |
| CNY | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 |

Source: RA MoF calculations and forecasts

The share of SDR-denominated debt in the structure of the RA Government foreign currency debt is expected to gradually decline. The SDR basket consists of five currencies with the following weights: USD – 43.38%, EUR – 29.31%, GBP – 7.44%, JPY – 7.59%, and CNY – 12.28%. Accordingly, by the end of the medium-term period, the share of USD-denominated debt in the RA Government foreign currency debt portfolio is projected to decrease from 67.0% to 53.4%, while the share of EUR-denominated debt is expected to increase from 24.6% to 43.7%.

1. Structure of the RA Government foreign currency debt at year end, 2024-2028, with SDR breakdown (%)

|  | 2024 actual | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
| --- | --- | --- | --- | --- | --- |
| USD | 67.0 | 59.7 | 58.0 | 55.8 | 53.4 |
| EUR | 24.6 | 35.0 | 37.7 | 40.6 | 43.7 |
| GBP | 1.7 | 0.9 | 0.7 | 0.6 | 0.5 |
| JPY | 3.7 | 2.6 | 2.1 | 1.8 | 1.5 |
| AED | 0.0 | 0.0 | 0.0 | - | - |
| CNY | 3.0 | 1.8 | 1.4 | 1.1 | 0.9 |

Source: RA MoF calculations and forecasts

To reduce and effectively manage exchange rate risk, various hedging approaches (such as FX swaps) will be used along with the development of the foreign exchange market.

The share of SDR-denominated debt in the RA Government foreign currency debt is expected to decline by 15.8 percentage points by the end of the forecast period compared to the actual figure in 2024, as SDR-denominated loans are gradually repaid and no new loans are being disbursed in this currency, given that international organizations primarily provide loans in SDR primarily to low-income countries. The Government continues its policy of diversifying foreign currency debt, resulting in the share of the USD in the portfolio decreasing by 6.7 percentage points and the share of the EUR increasing by 23.7 percentage points by the end of the medium-term period.

1. Share of the RA Government foreign currency debt redemptions and interest payments in the CBA external assets as of the end of the previous year, 2024-2028

Source: RA MoF calculations and forecasts, CBA, IMF

The share of the Republic of Armenia Government’s foreign currency debt redemptions and interest payments in a given year relative to the Central Bank of Armenia’s external assets at the end of the previous year increased significantly in 2025, reaching 30.1%, primarily due to the redemption of Eurobonds in 2025. By the end of 2028, this ratio is projected to decline to 21.7%. This indicates that over one-fifth of foreign assets will be allocated to servicing the government’s foreign currency debt redemptions and interest payments during the medium-term period, which has been a significant factor in developing the currency composition scenario for new government debt issuance.

Refinancing risk

The refinancing risk is emphasized in light of the volume of the RA Government debt repayments and potential negative developments in both international and domestic financial markets in the coming years. When negotiating and making decisions on the financial terms of new borrowings, the RA Government seeks to smooth the redemption profile, thereby mitigating the refinancing risk. Buybacks are also used to as a tool to reduce refinancing risk.

1. Refinancing risk indicators of the RA Government debt for 2024-2028

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2024 actual | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
| **Average time to maturity of RA Government debt (years)** | **6.9** | **7.1** | **7.2** | **7.1** | **7.0** |
| Average time to maturity of RA Government foreign currency debt (years) | 6.6 | 7.5 | 7.2 | 7.1 | 7.0 |
| Average time to maturity of RA Government local currency debt (years) | 7.2 | 6.7 | 6.8 | 7.0 | 6.9 |
| **Share of RA Government debt maturing within the coming three years in total debt (%)** | **29.6** | **25.8** | **29.4** | **27.4** | **33.0** |
| Share of RA Government foreign currency debt maturing within the coming three years in total foreign currency debt (%) | 23.5 | 15.4 | 20.0 | 18.9 | 27.7 |
| Share of RA Government local currency debt maturing within the coming three years in total local currency debt (%) | 35.6 | 36.5 | 39.0 | 36.0 | 38.6 |
| **Share of RA Government debt maturing in one year in total debt (%)** | **13.0** | **9.8** | **9.2** | **8.9** | **12.5** |
| Share of RA Government foreign currency debt maturing in one year in total foreign currency debt (%) | 11.6 | 6.1 | 4.5 | 4.3 | 9.4 |
| Share of RA Government local currency debt maturing in one year in total local currency debt (%) | 14.4 | 13.6 | 14.1 | 13.6 | 15.9 |

Source: RA MoF calculations and forecasts

The average time to maturity of the RA Government debt portfolio is projected to reach 7.0 years by the end of 2028, remaining within the benchmark range. The decline in the average time to maturity of foreign currency debt over the medium term is due to the shortening maturity of foreign currency bonds. The average time to maturity of local currency debt is increasing, driven by the growing share of medium- and long-term bonds in the structure of new issuances, supported by a declining interest rate environment.

The share of RA Government debt maturing within the coming three years in total debt is projected to reach 33.0% by the end of 2028. Specifically, the share of foreign currency debt maturing within the coming three years in total foreign currency debt will amount to 27.7%, while the share of local currency debt maturing within the coming three years in total local currency debt will be 38.6%. The sharp increase in the share of foreign currency debt maturing within the coming three years in total foreign currency debt by the end of 2028 is due to the scheduled redemption of Eurobonds USD in the amount of USD 500 million in 2029. The share of local currency debt maturing within the coming three years in total local currency debt is driven by the maturity profiles of previously issued benchmark bonds.

Within the framework of refinancing risk management, the share of RA Government debt maturing in one year in total debt is projected to increase by the end of the medium-term period, reaching 12.5% by the end of 2028. Specifically, the share of foreign currency debt maturing in one year in total foreign currency debt will amount to 9.4%, while the share of local currency debt maturing in one year in total local currency debt will be 15.9%. The sharp increase in the share of foreign currency debt maturing in one year in total foreign currency debt is also due to the scheduled redemption of Eurobonds in the amount of USD 500 million in 2029.

Below are the projected indicators of the RA Government debt payments, representing the total amount of principal repayments and interest payments during the year.

1. *RA Government debt payments, 2023-2028 (AMD billion)*

Source: RA MoF calculations and forecasts

The RA Government debt payments are projected to increase over the medium term, reaching AMD 1,202 billion by 2028. The sharp increase in debt payments in 2025 is driven by the scheduled redemption of Eurobonds.

1. RA Government debt payments by instruments (AMD billion)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2024 actual | 2025 | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
| State budget program |
| **RA Government debt payments by instruments, of which:** | 764.8 | 1,117.1 | 1,108.1 | 1,060.1 | 1,125.5 | 1,202.3 |
| External Loans and Borrowings | 232.3 | 290.6 | 290.6 | 290.3 | 274.2 | 299.1 |
| Interest Payment | 66.3 | 108.5 | 108.5 | 104.9 | 126.5 | 148.6 |
| Redemption | 166.0 | 182.1 | 182.1 | 185.4 | 147.6 | 150.6 |
| Government Treasury Bonds | 505.1 | 661.7 | 661.7 | 728.4 | 809.9 | 861.8 |
| Interest Payment | 219.8 | 253.2 | 253.2 | 284.5 | 314.6 | 338.4 |
| Redemption | 285.2 | 408.5 | 408.5 | 443.9 | 495.3 | 523.4 |
| Foreign currency Bonds | 27.4 | 164.7 | 155.8 | 41.4 | 41.4 | 41.4 |
| Interest Payment | 27.4 | 32.4 | 32.4 | 41.4 | 41.4 | 41.4 |
| Redemption | - | 132.3 | 123.4 | - | - | - |

Source: RA MoF calculations and forecasts

The RA Government manages refinancing risks through the use of debt and cash management instruments (buybacks, switches, deposits with the Central Bank of Armenia, etc.).

Interest rate risk

Interest rate risks require significant attention, as the share of market-based borrowings continues to increase. The objective of interest rate risk management is to ensure a government debt structure that minimizes the impact of interest rate fluctuations in financial markets on the projected level of interest payments. The interest rate risk indicators of the RA Government debt portfolio remain manageable over the forecast period.

The share of fixed interest rate debt is projected to reach 85.7% by the end of 2028. Maintaining this share within the benchmark range will be facilitated by both the placement of the fixed-interest state treasury bonds placed by the RA Government during the forecast period, as well as the attraction of fixed-interest external loans in parallel with a possible decrease in interest rates in external financial markets. For the purpose of managing interest rate risk, if necessary, the interest rates on floating-rate external loans may be converted to fixed rates in accordance with the procedures established by external creditors.

1. Share of fixed and floating interest rate loans in the structure of RA Government debt, 2024–2028 (%)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2024 actual | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
|
| RA Government Debt | 100 | 100 | 100 | 100 | 100 |
| of which: |  |  |  |  |  |
| Fixed rate | 84.4 | 86.5 | 86.7 | 86.6 | 85.7 |
| Floating rate | 15.6 | 13.5 | 13.3 | 13.4 | 14.3 |
| RA Government foreign currency debt | 100 | 100 | 100 | 100 | 100 |
| of which: |  |  |  |  |  |
| Fixed rate | 68.4 | 73.3 | 73.7 | 73.4 | 72.2 |
| Floating rate | 31.6 | 26.7 | 26.3 | 26.6 | 27.8 |
| RA Government local currency debt | 100 | 100 | 100 | 100 | 100 |
| of which: |  |  |  |  |  |
| Fixed rate | 100 | 100 | 100 | 100 | 100 |
| Floating rate | 0 | 0 | 0 | 0 | 0 |

Source: RA MoF calculations and forecasts

The average time to refixing of the RA Government debt is projected to reach 5.9 years by the end of the period, while the share of the RA Government debt refixing in one year will amount to 26.2%.

1. Interest rate risk indicators of the RA Government debt, 2024-2028

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2024 actual | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
|
| **Average Time to Refixing of RA Government Debt, (years)** | **5.6** | **6.0** | **6.1** | **6.1** | **5.9** |
| Average Time to Refixing of RA Government Foreign Currency Debt, (years) | 4.0 | 5.4 | 5.5 | 5.2 | 4.9 |
| Average Time to Refixing of RA Government Local Currency Debt, (years) | 7.2 | 6.7 | 6.8 | 7.0 | 6.9 |
| **Share of RA Government Debt Refixing in One Year (%)** | **26.3** | **22.5** | **21.9** | **21.7** | **26.2** |
| Share of RA Government foreign currency Debt Refixing in One Year in Foreign Currency Debt (%) | 38.4 | 31.2 | 29.6 | 29.7 | 35.9 |
| Share of RA Government Local Currency Debt Refixing in One Year in Local Currency Debt (%) | 14.4 | 13.6 | 14.1 | 13.6 | 15.9 |

Source: RA MoF calculations and forecasts

## Benchmark indicators

For effective management of the RA Government debt portfolio, it is essential to identify and assess the risks inherent to the portfolio. Accordingly, the RA Government debt management strategy defines benchmark risk indicators aimed at keeping exchange rate, interest rate, and refinancing risks within manageable limits through certain restrictions. These benchmark indicators are established taking into account the specific characteristics and constraints of the RA Government debt management environment.

1. Benchmark indicators of the RA Government debt portfolio for 2025-2028 (as of the end of the year)

|  | Benchmark |
| --- | --- |
| **Refinancing risk** |  |
| Average time to maturity | 7– 10 years |
| Share of debt maturing in the coming 3 years in total debt | max 35% |
| Share of Government treasury bonds maturing in 1 year in the outstanding Government treasury bonds | max 20% |
| **Interest rate risk** |  |
| Share of fixed rate debt in total debt | min 80% |
| **Exchange rate risk** |  |
| Share of domestic debt in total debt | min 40% |
| Share of AMD-denominated debt in total debt | min 40% |

Source: RA MoF calculations

The benchmark indicators of the debt portfolio remain unchanged compared to the RA Government Debt Management Strategy for 2025–2027. This reflects the stability of the RA Government debt management policy approaches and quantitative targets over the medium term.

## Sensitivity analyses

The analysis of costs and risks presented thus far has been based on projected macroeconomic and fiscal indicators and represents the baseline scenario of the RA Government debt management strategy. The following section presents the extent of deviation in cost and risk indicators resulting from the application of various shocks to market variables, compared to the baseline scenario—i.e., the outcomes under the selected strategy.

If the AMD depreciates by 23% (the largest depreciation historically recorded) against the USD by the end of the first year of the forecast period, the RA Government debt-to-GDP ratio is projected to approach the 60% threshold by the end of 2027, reaching 59.9%, and to exceed it by the end of 2028, reaching 60.5%.

If the AMD depreciates by 30% against the USD by the end of the first year of the forecast period—which reflects the depreciation rate typically applied in the World Bank debt management strategy quantitative tool—the RA Government debt burden is projected to exceed the maximum threshold by 2026.

1. *RA Government debt/GDP ratio for 2024-2028*

Source: RA MoF calculations and forecasts

Interest rate shock

If floating interest rates—SOFR and 6-month EURIBOR—increase by one percentage point, the interest payments on the RA Government foreign currency debt are projected to increase by an average of AMD 9.8 billion annually over 2026–2028.

1. Impact of one percentage point change in floating interest rates on interest payments of the RA Government foreign currency debt

|  | 2026 | 2027 | 2028 |
| --- | --- | --- | --- |
| Change in interest payment for RA Government foreign currency debt (AMD billion) | 8.7 | 9.8 | 10.9 |
| Including: |  |  |  |
| SOFR (AMD billion) | 4.9 | 5.0 | 4.8 |
| 6-month Euribor (AMD billion) | 3.8 | 4.9 | 6.1 |
| Change in interest payment for RA Government foreign currency debt (%) | 8.3 | 7.8 | 7.7 |
| Share of the change in RA Government foreign currency debt interest payments in state budget own revenues (excluding grants) (%) | 0.3 | 0.3 | 0.3 |

Source: RA MoF calculations

At the beginning of the medium-term period, a one percentage point increase in the yield curve in the domestic debt market is projected to increase debt interest payments by an average of AMD 6.6 billion annually over 2026–2028.

1. Impact of one percentage point change in local currency debt interest rate at the beginning of the medium-term on interest payments for the RA Government domestic debt

|  | 2026 | 2027 | 2028 |
| --- | --- | --- | --- |
| Change in interest payment for RA Government local currency debt (AMD billion) | 0.9 | 6.8 | 12.2 |
| Change in interest payment for RA Government local currency debt (%) | 0.3 | 2.2 | 3.6 |
| Share of the change in interest payment on RA Government local currency debt in State budget own revenues (excluding grants) (%) | 0.03 | 0.2 | 0.3 |

Source: RA MoF calculations and forecasts

The conducted sensitivity analyses indicate that the impact of exchange rate shocks on the RA Government debt portfolio remains significantly greater than the impact of interest rate shocks. Nevertheless, interest rate shocks are also an important factor that has been taken into account in developing the debt management strategy.

## Conclusions

The analysis of the RA Government debt portfolio cost and risk indicates that, while the portfolio is primarily exposed to exchange rate risk, refinancing and interest rate risks are also significant. In light of growing financing needs and a recent upward trend in interest rates in both external and domestic markets, the structure of deficit financing has been designed to limit the potential increase in debt interest payments, while maintaining exchange rate, refinancing, and interest rate risk indicators within manageable levels over the medium term.

The RA Government prioritizes the continued development of the domestic government bond market. However, the volume of bond issuances must be such that the market activity and liquidity of government securities are not undermined. Therefore, among other factors, the planning of net issuance volumes has also taken into account the demand of key investors and their response to market developments.

Over the medium term, efforts will focus on facilitating greater access for non-residents to the government bond market and ensuring at least a 40% share of local currency debt in the structure of the RA Government debt. Additionally, the introduction of an electronic system for conducting government bond switch auctions is planned, which will serve as an additional driver of enhancing the liquidity of government securities.

It is important to note that measures undertaken solely in the filed of the RA Government debt management are insufficient to significantly develop the domestic debt market. A key prerequisite for the development of the domestic debt market and the expansion of the investor base is the further development of the non-bank sector of the financial market.

When determining the external sources for financing the RA State Budget deficit, in addition to analyzing the aggregated indicators of cost and risk characteristic of the RA Government debt portfolio and the need for diversification of financing sources, the dynamics of foreign currency inflows and outflows within the RA State Budget cash flows have also been taken into account.

Cooperation with external creditors will be expanded, and financing instruments will be diversified. Within the framework of this cooperation, program loans will be directed towards the development of key infrastructure, while the use of results-based instruments will gradually expand across other loans. These instruments will stimulate economic growth and, consequently, generate revenues that will ensure debt sustainability and maintain debt burden indicators at manageable levels.

Over the medium term, the RA Government will continue its efforts to smooth the debt redemption profile and reduce refinancing risk by applying liquidity management instruments such as maintaining a cash buffer and conducting buybacks and switches. Where necessary, and depending on market conditions, active management of interest rate and exchange rate risks will also be undertaken—both by leveraging existing loan agreements and adjusting their terms, as well as by introducing derivative instruments.

# Appendix

Actual Debt Indicators of the RA Government for 2023–2024, programmed indicators under the 2025 State Budget, and Forecast Indicators for 2026–2028

1. Key indicators of the RA Government debt for 2023-2028 (AMD billion)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2023 actual | 2024 actual | 2025  State Budget program | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
| Government Debt | 4,572.0 | 4,892.8 | 5,933.7 | 5,771.6 | 6,490.1 | 7,077.4 | 7,739.4 |
| % of GDP | 48.2 | 48.0 | 54.3 | 52.6 | 54.6 | 54.9 | 55.4 |
| by instruments |  |  |  |  |  |  |  |
| External Loans and Borrowings | 1,836.1 | 1,786.8 | 2,415.1 | 2,112.7 | 2,457.8 | 2,762.7 | 3,160.2 |
| Government Treasury Bonds | 2,092.9 | 2,474.0 | 2,771.2 | 2,771.2 | 3,115.2 | 3,404.3 | 3,664.2 |
| Foreign Currency Bonds | 632.8 | 619.9 | 740.8 | 828.6 | 850.1 | 862.2 | 884.9 |
| External Guarantees | 3.0 | 2.6 | 2.6 | 2.6 | 2.4 | 2.2 | 2.0 |
| Domestic Guarantees | 7.2 | 9.5 | 4.0 | 56.5 | 64.5 | 46.0 | 28.1 |
| Interest Payment for Government Debt | 253.4 | 313.6 | 394.1 | 394.1 | 430.7 | 482.5 | 528.4 |
| Interest Payment / State Budget Expenditures (%) | 9.9 | 10.6 | 11.5 | 11.7 | 12.0 | 12.9 | 13.2 |
| Interest Payment / State Budget Own Revenues (excluding grants) (%) | 10.7 | 12.2 | 13.9 | 14.2 | 14.1 | 14.6 | 14.7 |
| Interest Payment / GDP (%) | 2.7 | 3.1 | 3.6 | 3.6 | 3.6 | 3.7 | 3.8 |

Source: RA MoF calculations and forecasts

1. Government bond indicators for 2023-2028

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2023 actual | 2024 actual | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
| Government Treasury Bonds, AMD billion | 2,092.9 | 2,474.0 | 2,771.2 | 3,115.2 | 3,404.3 | 3,664.2 |
| % of GDP | 22.0 | 24.3 | 25.2 | 26.2 | 26.4 | 26.2 |
| By days to maturity, AMD billion |  |  |  |  |  |  |
| up to 1 year | 246.6 | 354.0 | 384.1 | 434.3 | 462.4 | 583.6 |
| 1-5 years | 708.4 | 932.0 | 1017.8 | 1258.0 | 1292.4 | 1625.1 |
| more than 5 years | 1137.8 | 1188.0 | 1369.3 | 1422.9 | 1649.5 | 1455.5 |
| Share by days to maturity (%) |  |  |  |  |  |  |
| up to 1 year | 11.8 | 14.3 | 13.9 | 13.9 | 13.6 | 15.9 |
| 1-5 years | 33.8 | 37.7 | 36.7 | 40.4 | 38.0 | 44.4 |
| more than 5 years | 54.4 | 48.0 | 49.4 | 45.7 | 48.5 | 39.7 |
| Average interest rate (%) | 10.7 | 10.6 | 10.4 | 10.4 | 10.2 | 10.1 |
| Average time to maturity (years) | 8.0 | 7.3 | 7.8 | 7.5 | 7.6 | 7.6 |
| Foreign Currency Bonds, USD million | 1563.2 | 1563.2 | 2000.0 | 2000.0 | 2000.0 | 2000.0 |
| % of GDP | 6.7 | 6.1 | 7.5 | 7.2 | 6.8 | 6.4 |
| Average interest rate (%) | 4.7 | 4.7 | 5.2 | 5.2 | 5.2 | 5.2 |
| Average time to maturity (years) | 5.5 | 4.5 | 6.3 | 5.3 | 4.3 | 3.3 |

Source: RA MoF calculations and forecasts

1. Indicators for the RA Government loans and borrowings for 2023-2028 (USD billion)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2023 actual | 2024 actual | 2025 forecast | 2026 forecast | 2027 forecast | 2028 forecast |
| Government Loans and borrowings | 4,536.0 | 4,505.8 | 5,099.4 | 5,782.1 | 6,408.2 | 7,142.3 |
| % of GDP | 19.3 | 17.5 | 19.2 | 20.7 | 21.7 | 22.9 |
| By lender |  |  |  |  |  |  |
| From International Financial Organizations | 3,590.1 | 3,607.1 | 3,498.0 | 3,384.8 | 3,363.9 | 3,375.2 |
| From Foreign States | 933.9 | 889.4 | 1,593.6 | 2,390.9 | 3,039.3 | 3,763.0 |
| From Commercial Banks | 12.1 | 9.4 | 7.8 | 6.4 | 5.0 | 4.1 |
| Average interest rate (%) | 3.6 | 3.5 | 3.4 | 5.0 | 4.8 | 4.8 |
| Average time to maturity (years) | 7.3 | 7.4 | 7.9 | 7.6 | 7.6 | 7.5 |

Source: RA MoF calculations and forecasts