

# 2020 ANNUAL BORROWING PLAN

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## 1. General description

The 2020 Annual Borrowing Plan has been developed in accordance with the targets and benchmark indicators of the 2020-2022 Medium-Term Government Debt Management Strategy, revised 2019-2023 Programme for RA Government Debt Reduction and is based on the macroeconomic and fiscal frameworks applied for the preparation of the 2020 State Budget of the Republic of Armenia.

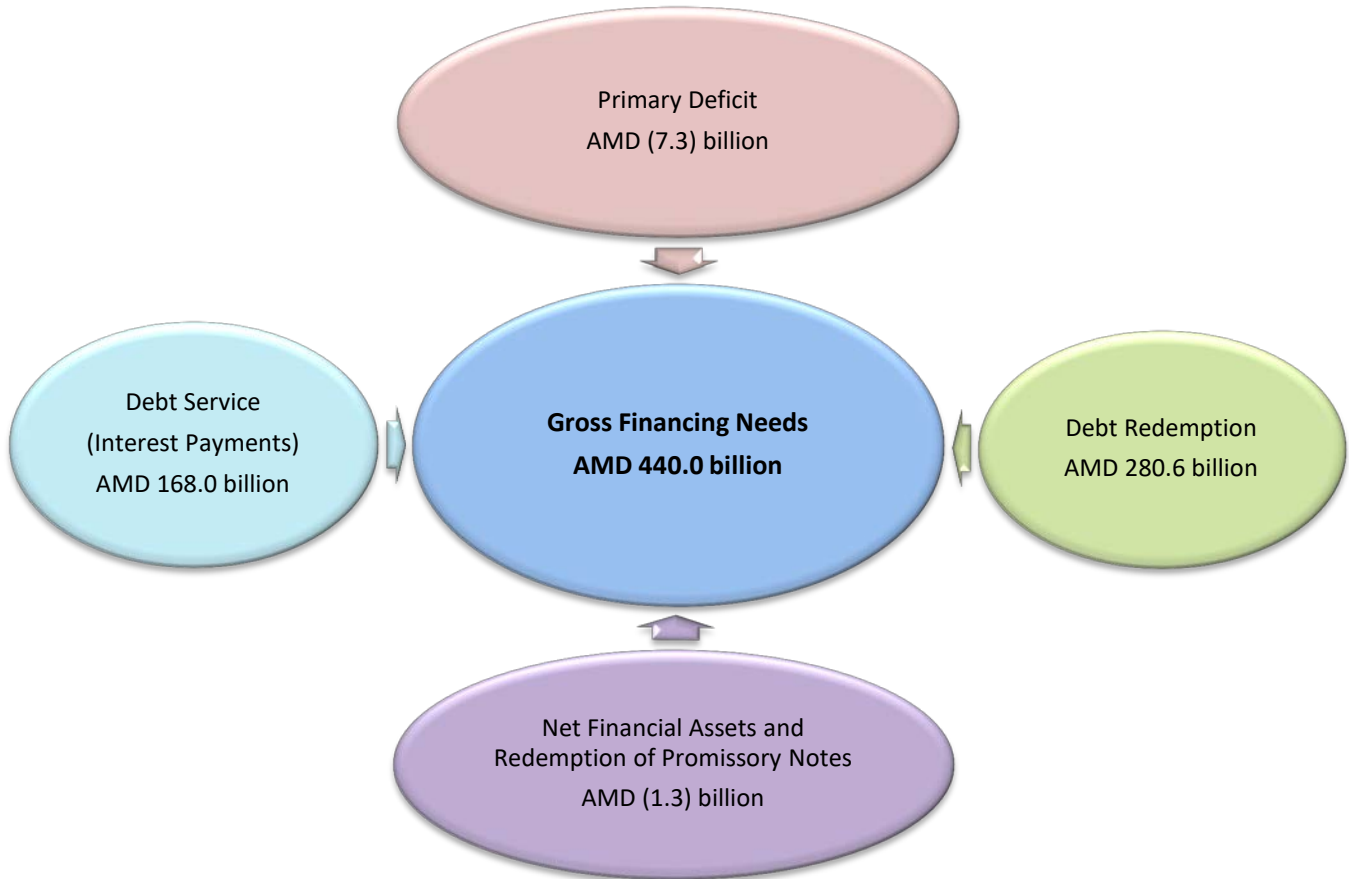
Since 2018 the Government of Armenia has upgraded fiscal rules to increase the efficiency of the fiscal policy in stimulating the economy and long-term economic growth, as well as to ensure debt sustainability. The Government has developed and implemented more flexible and comprehensive fiscal approaches and rules which are compliant with the current characteristics of Armenia's economy and based on which 2020 State Budget has been developed.

The main indicators of 2020 State Budget of RA

<i>Indicators</i>	<i>2020</i>
GDP, AMD billion	7,095.1
Real growth, %	4.9
GDP deflator, %	3.0
State Budget revenues, AMD billion	1,695.0
State Budget expenditures, AMD billion	1,855.7
State Budget deficit, AMD billion	(160.7)
State Budget deficit/GDP, %	(2.3)
USD / AMD exchange rate	476.46

## 2. Financing needs and deficit financing sources

According to general indicators of the 2020 State Budget, the gross financing needs will be AMD 440.0 billion, in particular:



It is planned to finance 61% of financing needs through domestic borrowings, and 39% – through external borrowings. Treasury bonds in amount of AMD 268 billion will be allocated with expected AMD 268.2 billion proceeds, and AMD 171.8 billion will be financed by external loans.

The deficit of the 2020 State Budget will constitute AMD 160.7 billion, and it is planned that AMD 211.3 billion will be financed from domestic sources, and AMD (50.6) billion from external sources.

2020 State Budget Deficit financing sources are the following:

<i>Indicators, AMD billion</i>	2020 (State Budget)	2020 (2020 –2022 MTEF)
<b>Total deficit</b>	<b>160.7</b>	<b>160.3</b>
including:		
<b>Domestic sources</b>	<b>211.3</b>	<b>101.2</b>
of which:		
<b>Net borrowings</b>	<b>144.1</b>	<b>89.1</b>

<i>Indicators, AMD billion</i>	2020 (State Budget)	2020 (2020 –2022 MTEF)
Proceeds from allocation of treasury bonds	268,2	220.2
Treasury bonds redemption/buyback	(123,2)	(130.2)
Redemption of promissory notes	(0,9)	(0.9)
<b>Net financial assets</b>	<b>67,1</b>	<b>12.1</b>
Provision of loans and borrowings (net)	(24,6)	(30.4)
Free residue of 2019 State Budget at the beginning of the year	45,6	42.9
Use of the stabilization deposit account	46.5	-
Other	(0,4)	(0.4)
<b>External sources</b>	<b>(50,6)</b>	<b>59.1</b>
of which:		
<b>Net borrowings</b>	<b>14,3</b>	<b>124.6</b>
Receipt of loans and borrowings	171.8	244.2
Redemption of the received loans and borrowings	(110.9)	(119.6)
Proceeds from allocation of Eurobond	-	250.8
Eurobond redemption/buyback	(46.5)	(250.8)
<b>Net financial assets</b>	<b>(64,9)</b>	<b>(65.5)</b>
Provision of loans and borrowings (net)	(64,2)	(64.8)
Acquisition of stocks and other participation in equity	(0,7)	(0.7)

### 3. Debt instruments for deficit financing

In 2020, it is planned to finance the State Budget deficit through net borrowings (without promissory notes) in the amount of AMD 159.3 billion, of which AMD 145.0 billion through Treasury bonds, AMD 60.9 billion through external loans and AMD (46.5) billion through Eurobonds.

To be noted, according to 2020-2022 Medium-Term Government Debt Management Strategy the 2020 State Budget deficit net financing through borrowings was planned to be AMD 215.6 billion ( AMD 90 billion from domestic sources and AMD 125.6 billion from external sources). The factors of such differences are the following:

- ✓ Due to 2020-2022 Medium-Term Government Debt Management Strategy the issuance of new Eurobond was planned in 2020 and the proceeds of which should be directed to the redemption of existing 2020 Eurobond. Though, the Republic of Armenia successfully issued new benchmark USD 500 million Eurobond in 2019 September with a concurrent tender offer of 2020 Eurobonds at amount of USD 402.4 million The remaining amount of proceeds was directed to the replenishment of stabilization deposit account and due to 2020 State Budget will be used to finance the final redemption of 2020 Eurobonds on 30 September, 2020. Thus, only the amount of AMD 46.5 billion (USD 97.7 million) for Eurobond redemption is reflected in deficit net financing through borrowings

from external sources, which will be financed with the same amount from stabilization deposit account of domestic sources net financial assets.

- ✓ Due to favourable environment in Government securities market the deficit financing structure was changed. Financing through Treasury bonds was increased by AMD 55 billion, which is in line with the objective of Strategy to increase the volume and the share of deficit financing through domestic sources.

### **3.1. Deficit financing by Treasury bonds**

The budget deficit financing by Treasury bonds will be done through short-term (3, 6, 9 and 12 months), medium-term (3 and 5 years), long-term (10 and 30 years) and savings bonds.

Auctions of T-Bills with tenor of 52, 39, 26 and 13 weeks will be organized at least once in every two months. Additional T-Bills issuances can be done as well; moreover, issuances with maturity period of up to 3 weeks can be done for cash flow management purposes, whereas issuances with maturity period of 3-12 months can be done in frames of coordination of the fiscal and monetary policies.

New T-Notes with tenor of 3 and 5 years will be issued on 29 April, 2020.

T-Bonds due to 29 October 2050 will be allocated during 2020 year.

The information about the indicative volumes of the auctions will be published quarterly.

The information about the volume (range) and tenor of bonds subject to allocation will be published prior to each auction, after the discussion with Primary Dealers.

Treasury bonds buybacks are also planned during 2020. In 2020, the 70-80% of the buybacks is planned for smoothening the redemption profile, and 20-30% - for enhancing the liquidity. As a rule, treasury bonds buybacks will be carried out on mid-term and long-term treasury bonds auction dates.

During the placement period of each issue, the Ministry of Finance does not implement buyback of those bonds (on-the-run).

The list of benchmark bonds is published quarterly, on the official website of the Ministry of Finance, 10 days before each quarter.

Treasury bonds auctions calendar is presented below.

### Treasury bonds auctions calendar

January 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
1			1	2	3	4	5
2	6	7	8	9	10	11	12
3	13	14	15	16	17	18	19
4	20	21	22	23	24	25	26
5	27	28	29	30	31		

February 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
5						1	2
6	3	4	5	6	7	8	9
7	10	11	12	13	14	15	16
8	17	18	19	20	21	22	23
9	24	25	26	27	28	29	

March 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
9							1
10	2	3	4	5	6	7	8
11	9	10	11	12	13	14	15
12	16	17	18	19	20	21	22
13	23	24	25	26	27	28	29
14	30	31					

April 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
14			1	2	3	4	5
15	6	7	8	9	10	11	12
16	13	14	15	16	17	18	19
17	20	21	22	23	24	25	26
18	27	28	29	30			

May 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
18					1	2	3
19	4	5	6	7	8	9	10
20	11	12	13	14	15	16	17
21	18	19	20	21	22	23	24
22	25	26	27	28	29	30	31

June 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
23	1	2	3	4	5	6	7
24	8	9	10	11	12	13	14
25	15	16	17	18	19	20	21
26	22	23	24	25	26	27	28
27	29	30					

July 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
27			1	2	3	4	5
28	6	7	8	9	10	11	12
29	13	14	15	16	17	18	19
30	20	21	22	23	24	25	26
31	27	28	29	30	31		

August 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
31						1	2
32	3	4	5	6	7	8	9
33	10	11	12	13	14	15	16
34	17	18	19	20	21	22	23
35	24	25	26	27	28	29	30
36	31						

September 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
36		1	2	3	4	5	6
37	7	8	9	10	11	12	13
38	14	15	16	17	18	19	20
39	21	22	23	24	25	26	27
40	28	29	30				

October 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
40				1	2	3	4
41	5	6	7	8	9	10	11
42	12	13	14	15	16	17	18
43	19	20	21	22	23	24	25
44	26	27	28	29	30	31	

November 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
44							1
45	2	3	4	5	6	7	8
46	9	10	11	12	13	14	15
47	16	17	18	19	20	21	22
48	23	24	25	26	27	28	29
49	30						

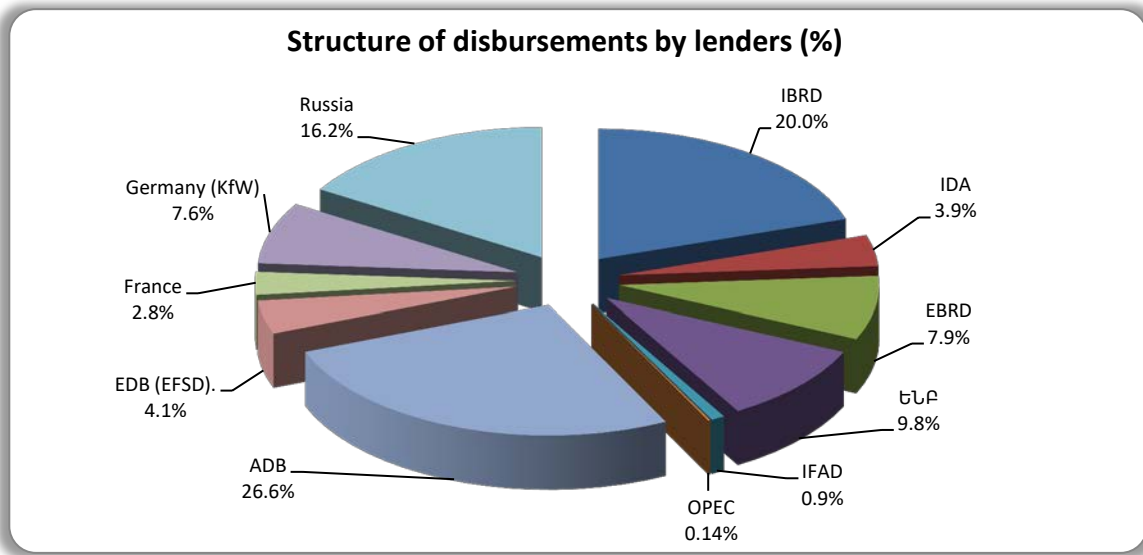
December 2020							
Week	MON	TUE	WED	THU	FRI	SAT	SUN
49		1	2	3	4	5	6
50	7	8	9	10	11	12	13
51	14	15	16	17	18	19	20
52	21	22	23	24	25	26	27
53	28	29	30	31			



### 3.2. Deficit financing by external loans

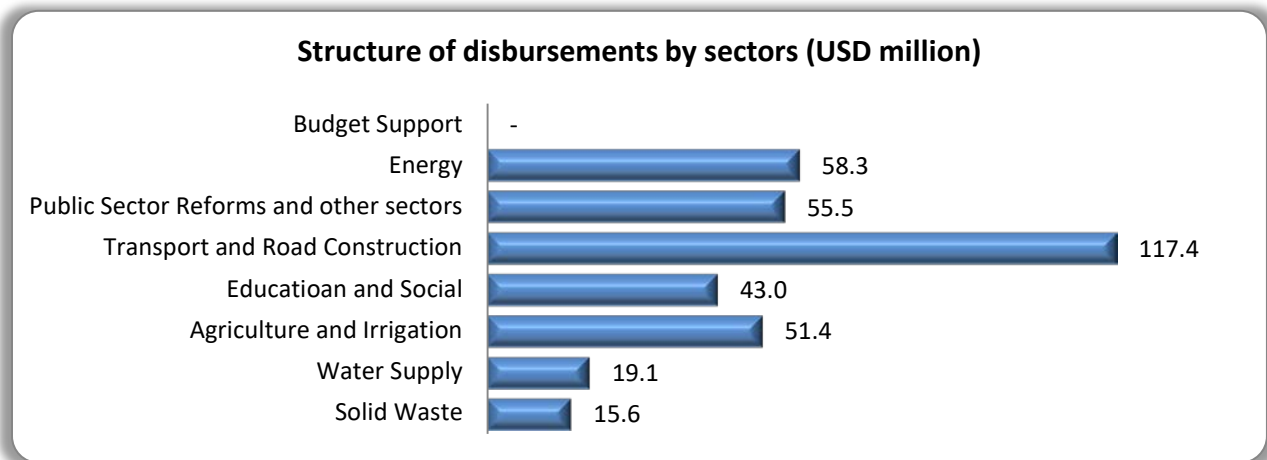
For financing the State Budget deficit in 2020, it is planned to disburse AMD 171.6 billion (USD 360.2 million) from external loans<sup>1</sup>. Moreover, the whole amount of disbursements is planned from project loans due to 2020-2022 MTEF policy not to encourage budget support loans in medium-term period.

26.6% of 2020 disbursements will be made from Asian Development Bank loans, 23.9% from World Bank (IBRD and IDA) and 16.2% from Russian loans. The structure of disbursements by lenders is as follows:



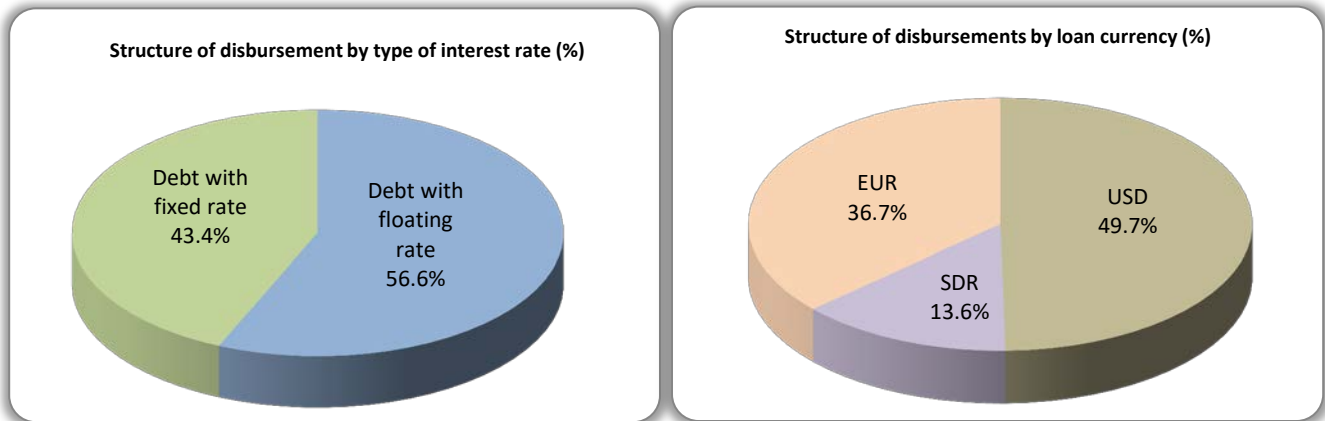
The largest volume of disbursements from project loans is planned from Armenian Nuclear Power Plant Rehabilitation Project (USD 31.3 million).

The structure of disbursements by sectors is as follows:



<sup>1</sup> The difference between the deficit financing from external loans and the disbursements from external loans is caused by the residual cash available on the special accounts opened in frames of the corresponding loan programs.

In 2020, the largest share of disbursements (49.7%) will be made from the loans provided in USD.



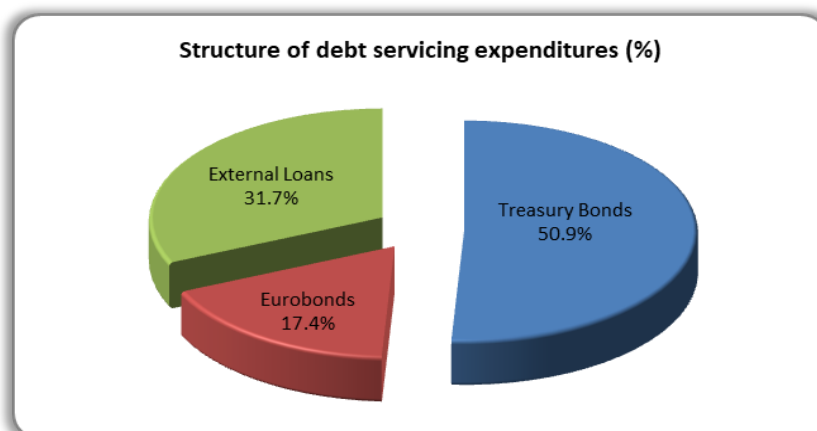
### 3.3. Deficit financing by Eurobonds

Only the redemption of Armenian Eurobonds due to 30 September 2020 is planned at the amount of AMD 46.5 billion (USD 97.7 million), which will be mainly financed from the proceeds of 2019 liability management operation.

## 4. Redemption and servicing of Government debt

In 2020, AMD 448.7 billion is required for the redemption and servicing of the government debt, of which the redemptions of the debt will constitute AMD 280.6 billion, and the interest payments - AMD 168.0 billion.

<i>AMD billion</i>	<i>Redemption</i>	<i>Interest payment</i>	<i>Total</i>
Treasury bonds	123.2	85.5	<b>208.7</b>
Eurobonds	46.5	29.2	<b>75.8</b>
External loans	110.9	53.3	<b>164.2</b>
<b>Total</b>	<b>280.6</b>	<b>168.0</b>	<b>448.7</b>



Interest and redemption expenditures for Government foreign currency denominated debt are calculated based on USD/AMD exchange rate as of November 1, 2019, and planned on the assumption that 6-month USD Libor rate will be in average 2.5% and 6-month Euribor will not exceed zero level.

AMD 26 billion of redemption amount of the Treasury bonds (AMD 123.2 billion) is planned for buybacks of bonds.

It is planned to pay AMD 164.2 billion (USD 344.66 million) for the redemption and servicing of external loans. The structure of the planned payments by lenders is as follows:

USD million	Interest payment	Redemption	Total
International Bank for Reconstruction and Development	27.8	6.7	34.6
International Development Association	23.2	66.2	89.4
European Bank for Reconstruction and Development	0.7	4.1	4.8
European Investment Bank	2.2	2.1	4.3
International Fund for Agricultural Development	0.6	2.7	3.2
OPEC Fund for International Development	2.2	4.2	6.4
Asian Development Bank	22.3	34.7	57.0
European Union	2.5	-	2.5
International Monetary Fund	-	28.9	28.9
Eurasian Development Bank	6.8	0.1	6.8
Germany (KfW)	5.3	18.5	23.8
Russian Federation	13.5	48.4	61.9
France	1.8	0.5	2.3
USA	0.3	1.8	2.1
Japan	2.0	10.7	12.7
Abu Dhabi Fund for Development	0.2	0.6	0.8
Export-Import Bank of China	0.5	0.8	1.2
KBC Bank (Belgium)	0.0	0.6	0.6
Raiffeisen Bank (Austria)	0.1	1.0	1.0
Erste Bank (Austria)	0.1	0.2	0.4
<b>Total</b>	<b>111.9</b>	<b>232.8</b>	<b>344.7</b>

The 2020 expenditures for Eurobond service will amount to USD 159.1 million, of which USD 61.4 million are planned for outstanding bonds' coupon payments and USD 97.7 million for the redemption of 2020 Eurobonds.



## 5. Government debt at the end of 2020

Due to 2020 State Budget projections, the Government debt of Armenia will constitute AMD 3,419 billion or 48.2% of the GDP at the end of 2020, which will decrease by 1.4 pp. against 2019 Debt/GDP ratio. Debt/GDP projections differ from the figures of 2019-2033 Government Debt Reduction revised program (which is a part of 2020-2022 MTEF) mainly due to the differences in macroeconomic framework and exchange rate projections, as well as liability management operations executed by the Government.

	As of 31.12.2018	As of 31.12.2019	As of 31.12.2020
Government debt, AMD billion	3,083	3,257	3,419
Government debt, USD million	6,372	6,836	7,177
Government debt, % to GDP	51.3	49.6	48.2

Debt benchmark indicators set in 2020-2022 Medium-Term Government Debt Management Strategy will be the following at the end of 2020.

	Benchmark	2020 (projection)
<b>Refinancing risk</b>		
Average time to maturity	<b>8 – 11 years</b>	<b>9 years</b>
Share of the Treasury bonds maturing in 1 year in the outstanding Treasury bonds (at the end of the year)	<b>max 20%</b>	<b>8.9%</b>
<b>Interest rate risk</b>		
Share of Fixed Rate Debt in total debt	<b>min 80%</b>	<b>82.0%</b>
<b>Exchange rate risk</b>		
Share of domestic debt in total debt	<b>min 20%</b>	<b>25.6%</b>
Share of AMD denominated debt in total debt	<b>min 20%</b>	<b>24.1%</b>

In 2020, the weighted average interest rate of Government debt will be 5.2%. The Government debt servicing expenditures will be 2.4% of GDP.

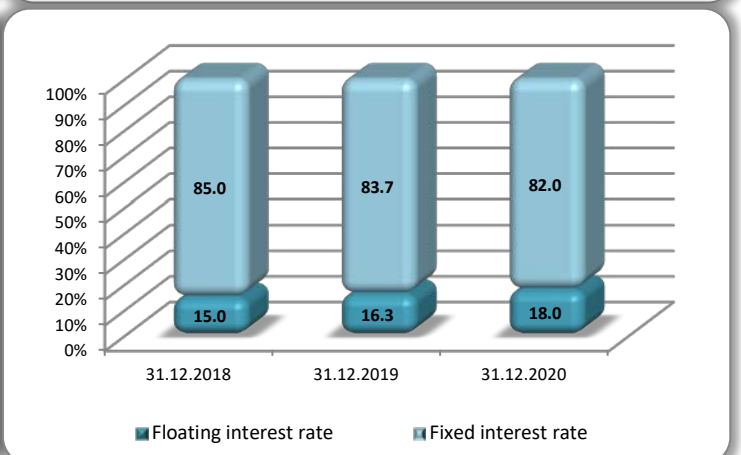
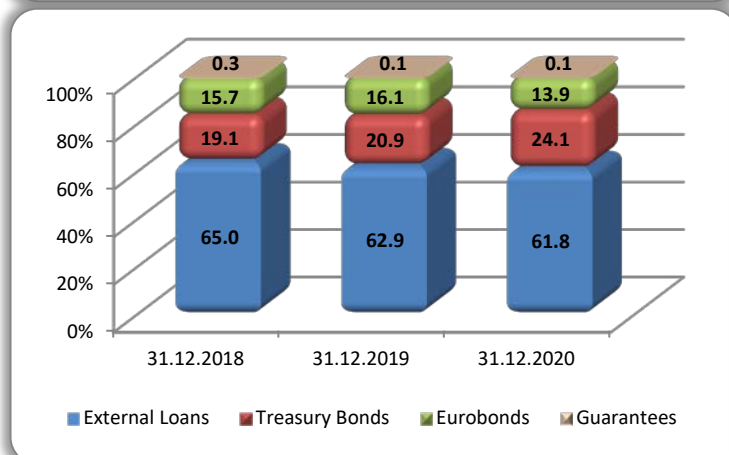
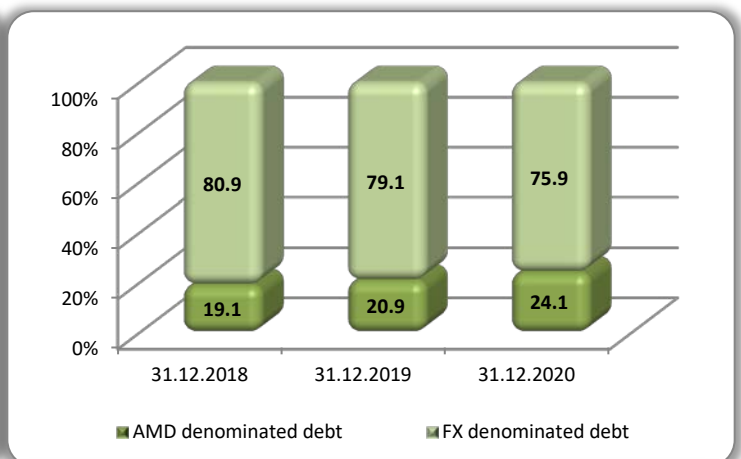
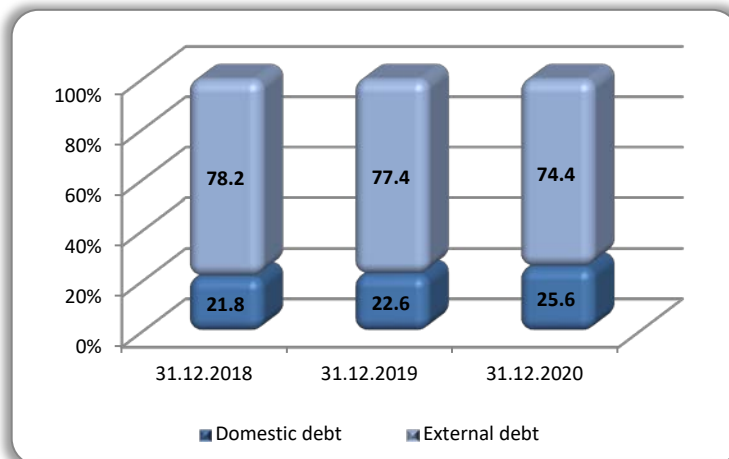
	2018	2019	2020
<b>Government Debt Service (Interest Payments)</b>			
AMD billion	139.0	157.6	168.0
% of GDP	2.3	2.4	2.4
<b>Weighted average interest rate of Government debt, %</b>	5.0	5.0	5.2

It is intended to increase the share of AMD denominated Treasury bonds in the Government debt structure in 2020, which is projected at 24.1%.

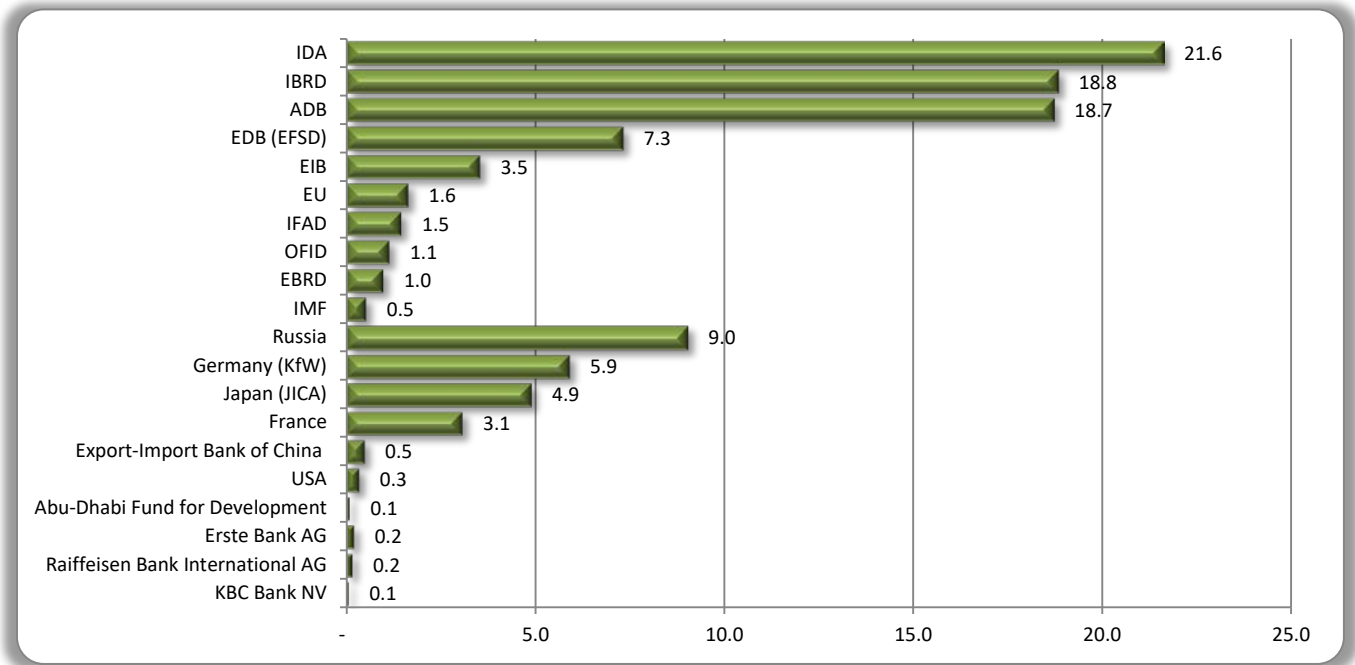
The Government debt will have the following structure:

	As of 31.12.2018	As of 31.12.2019	As of 31.12.2020
<b>Structure by residency, AMD billion*</b>			
Domestic Debt	671	736	875
External Debt	2,412	2,521	2,544
<b>Structure by type of instruments, AMD billion</b>			
External loans and Credits	2,003	2,050	2,114
Treasury Bonds	588	681	826
Eurobonds	484	523	476
External Guarantees	4	4	4
Domestic Guarantees	4	-	-
<b>Structure by currency, AMD billion</b>			
AMD denominated	588	681	826
FX denominated	2,495	2,576	2,594
<b>Structure by type of interest rate, AMD billion</b>			
Floating	463	531	615
Fixed	2,620	2,726	2,804

\* 2019 and 2020 figures of Treasury Bonds and Eurobonds are based on actual shares by residency as of October 31, 2019.



The World Bank’s (IBRD and IDA) share in external loans of Government outstanding debt will be 40.4% at the end of 2020. Government external loans structure by lenders will be the following:



As of the end of 2020 the Government debt redemption profile will be scattered until 2054.

