## IMPORTANT NOTICE

**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) PERSONS LOCATED OUTSIDE OF THE UNITED STATES.**

**IMPORTANT:** You must read the following before continuing. The following applies to the prospectus (the "**Prospectus**"), whether received by e-mail, accessed from an internet page or received as a result of electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

The Prospectus has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein (the "**Notes**").

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF NOTES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.**

**THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A) ("QIBs") OR (2) OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.**

**THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE PROSPECTUS MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS," AS PERMITTED BY REGULATION S, OR WITHIN THE UNITED STATES TO QIBS IN ACCORDANCE WITH RULE 144A. ANY REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THESE RESTRICTIONS MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**

**Confirmation of your representation:** In order to be eligible to view the Prospectus or make an investment decision with respect to the Notes, you must be (i) outside the United States for the purposes of Regulation S or (ii) a QIB that is acquiring the Notes for its own account or for the account of another QIB. By accepting this electronic transmission and accessing, reading or making any other use of the Prospectus, you shall be deemed to have represented to the Republic of Armenia and to Citigroup Global Markets Limited and J.P. Morgan Securities plc (the "**Joint Lead Managers**") that (1) you understand and agree to the terms set out herein; (2) in respect of the Notes being offered pursuant to Rule 144A, you are (or the person you represent is) a QIB, and the e-mail address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is utilised by someone who is a QIB; (3) in respect of the Notes being offered outside of the United States in an offshore transaction pursuant to Regulation S, you are outside the United States, and the e-mail address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is not located in the United States for the purposes of Regulation S; (4) you consent to delivery by electronic transmission; (5) you will not transmit the Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person (other than your professional advisers bound by an undertaking of confidentiality) except with the consent of the Joint Lead Managers; and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Notes.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person and in particular to any U.S. address. Failure to comply may result in a direct violation of the Securities Act or the applicable laws of other jurisdictions. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Ministry of Finance of the Republic of Armenia acting on behalf of the Republic of Armenia in such jurisdiction.

In addition, in the United Kingdom, the attached document is being distributed only to and is directed only at: (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); (b) high net worth entities falling within Article 49(2)(a) to (d) of the Order; and (c) other persons to whom it may otherwise lawfully be communicated under the Order (all such persons together referred to as "**relevant persons**"). Any investment or investment activity to which the document relates is available only in the United Kingdom to relevant persons and will be engaged in only with such persons.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of the Republic of Armenia or the Ministry of Finance of the Republic of Armenia or any officials thereof, the Joint Lead Managers, any person who controls any of the foregoing, any director, officer, employee, representative or agent of any of the foregoing or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

# Republic of Armenia

(acting through the Ministry of Finance)

## US$500,000,000 3.95 per cent. Notes due 2029

## Issue Price: 97.976 per cent.

The U.S.$500,000,000 3.95 per cent. Notes due 2029 (the "**Notes**") to be issued by the Republic of Armenia (the "**Issuer**" or "**Armenia**"), acting through the Ministry of Finance of Armenia (the "**Ministry of Finance**"), will mature on 26 September 2029, and, unless previously purchased and cancelled, will be redeemed at their principal amount on that date.

The Notes will bear interest at a rate of 3.95 per cent. per annum. Interest will accrue on the outstanding principal amount of the Notes from and including 26 September 2019 and will be payable semi-annually in arrear on 26 March and 26 September in each year, commencing on 26 March 2020.

All payments of principal and interest in respect of the Notes will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or government charges of whatever nature imposed, levied, collected, withheld or assessed by Armenia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the holders of the Notes of such amounts as would have been received by them if no such withholding or deduction had been required, subject to certain exceptions set out in the Terms and Conditions of the Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a summary of certain restrictions on resale, see "*Subscription and Sale*" and "*Transfer Restrictions*."

The Notes will be offered and sold outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") and within the United States to "qualified institutional buyers" ("**QIBs**") only (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

**SEE "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES STARTING ON PAGE 4.**

The Notes are expected to be rated Ba3 by Moody's Investors Service, Ltd. ("**Moody's**") and B+ by Fitch Ratings Ltd. ("**Fitch**"). The rating agencies have also issued ratings in respect of the Issuer as set out in this prospectus (the "**Prospectus**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, each of the rating agencies is established in the European Union (the "**EU**") and is registered under Regulation (EU) No 1060/2009 (as amended) (the "**CRA Regulation**"). As such, each of the rating agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation.

The Notes will be offered and sold in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes offered and sold in reliance on Regulation S (the "**Unrestricted Notes**") are each represented by beneficial interests in an unrestricted global Note (the "**Unrestricted Global Note**"), in registered form without interest coupons attached, which will be registered in the name of a nominee for, and shall be deposited on or about 26 September 2019 (the "**Closing Date**") with the common depositary (the "**Common Depositary**") for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). The Notes offered and sold in reliance on Rule 144A (the "**Restricted Notes**") are each represented by beneficial interests in one or more restricted global Notes (the "**Restricted Global Note**," and together with the Unrestricted Global Note, the "**Global Notes**"), in registered form without interest coupons attached, which will be deposited on or about the Closing Date with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). It is expected that the Notes will be issued on the Closing Date. Interests in the Restricted Global Note will be subject to certain restrictions on transfer. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates will not be issued in exchange for beneficial interests in the Global Notes.

Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Notes to be admitted to its official list (the "**Official List**") and trading on the regulated market of Euronext Dublin (the "**Market**"). References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**").

This Prospectus has been approved by the Central Bank of Ireland, as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The Central Bank of Ireland only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of either the Issuer or the quality of the Notes that are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Notes.

---

*Joint Lead Managers*

**Citigroup** **J.P. Morgan**

Prospectus Dated 24 September 2019

The Prospectus constitutes a prospectus for the purposes of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Armenia accepts responsibility for the information contained in this Prospectus. To the best of Armenia's knowledge, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect its import.

Information included herein that is identified as being derived from information published by Armenia or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Armenia. All other information herein with respect to Armenia is included herein as a public official statement made on the authority of the Ministry of Finance.

No person has been authorised to give any information or to make any representation other than as contained in this Prospectus in connection with the offering, issue and sale of the Notes, and, if given or made, such information or representation must not be relied upon as having been authorised by Armenia or the Joint Lead Managers (as defined in "*Subscription and Sale*").

Neither the delivery of this Prospectus nor any offer or sale of the Notes made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Armenia since the date hereof. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of Armenia during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. This Prospectus may only be used for the purposes for which it has been published.

This Prospectus does not constitute an offer to sell or an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction, nor does this Prospectus constitute an offer or an invitation to subscribe for or purchase any Notes and it should not be considered as a recommendation by Armenia or any Joint Lead Manager that any recipient of this Prospectus should subscribe for or purchase any Notes. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by Armenia and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

None of Armenia or the Joint Lead Managers makes any representation to any recipient of this Prospectus regarding the legality of an investment in the Notes by such recipient under applicable investment or similar laws. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by Armenia or any of the Joint Lead Managers that any recipient of this Prospectus should purchase the Notes. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of its purchase of the Notes. For a description of certain restrictions on offers, sales and deliveries of Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*."

Every prospective investor must determine the suitability of an investment in the Notes in the light of its particular circumstances. Accordingly, each prospective investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes and the merits and risks of investing in the Notes;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolios;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from its currencies;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for currency, economic, interest rate and other factors that may affect its investments and ability to bear the applicable risks.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is a criminal offence in the United States.

None of the Joint Lead Managers or any of their directors, affiliates, advisers and agents has separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made, and no responsibility or liability is accepted, by the Joint Lead Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by Armenia in connection with the Notes or their distribution. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of Armenia.

This Prospectus does not constitute an offer of securities to the public in the United Kingdom. Consequently, this document is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); (b) high net worth entities falling within article 49(2)(a) to (d) of the Order; and (c) other persons to whom it may be lawfully communicated under the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Prospectus may come are required by Armenia and the Joint Lead Managers to inform themselves about and to observe such restrictions.

## STABILISATION

**IN CONNECTION WITH THE ISSUE OF THE NOTES, J.P. MORGAN SECURITIES PLC (THE "STABILISING MANAGER") (OR ANY PERSON ACTING FOR THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE INITIAL ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

This Prospectus has been prepared by Armenia for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States in reliance on Rule 144A and the admission of the Notes to the Official List and to trading on the Market. Armenia and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer affiliate. Distribution of this Prospectus to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of Armenia of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

## MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

**PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE**

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus or any other document or material in connection with the offer and sale, or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be distributed, nor may the Notes be offered or sold or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Notification under the SFA – all Notes shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Armenia is a sovereign state, and nearly all of the assets of Armenia are located outside the United States and the United Kingdom. There is a risk that, notwithstanding the limited waiver of sovereign immunity by Armenia in connection with the Notes, a claimant will not be able to enforce a foreign court judgment or arbitral award against Armenia (including the imposition of any arrest order or the attachment or seizure of such assets and their subsequent sale), without Armenia having specifically consented to such enforcement at the time when the enforcement is sought. See "*Terms and Conditions of the Notes—17. Governing Law, Arbitration and Jurisdiction*." In addition, certain state-owned assets are statutorily exempt from court enforcement procedures within Armenia. Armenia waived its immunity from execution in proceedings before the English courts, however it has not waived any immunity in respect of (a) assets and property of the Issuer located in Armenia; (b) the premises and property of the Issuer's diplomatic and consular missions; (c) assets and property of the Issuer outside Armenia not used or intended to be used for a commercial purpose; (d) assets and property of the Issuer's central bank (the "**CBA**") or monetary authority and the international reserves of the Issuer held by the CBA or the Issuer's monetary authority; (e) assets and property of a military character or under the control of a military authority or defence agency of the Issuer; or (f) assets and property forming part of the cultural heritage of the Issuer.

It may not be possible to effect service of process against Armenia in courts outside Armenia or in a jurisdiction to which Armenia has not explicitly submitted, and the choice of jurisdiction of a foreign court (including English courts) in contractual agreements may be held to be invalid by an Armenian court. In addition, courts in Armenia will enforce a judgment obtained in a foreign court only if such enforcement is provided for by a treaty ratified by Armenia or on the basis of reciprocity (if courts of the country where the foreign judgment is rendered have not previously refused to enforce judgments issued by Armenian courts). Armenian law establishes the presumption of such reciprocity, but this presumption can be rebutted. Armenia has no treaty regarding the enforcement of foreign judgments with the United Kingdom or with the United States.

Armenia is a party to the Convention on Recognition and Enforcement of Foreign Arbitral Awards of 10 June 1958 (the "**NY Convention**") in accordance with which an award of the International Chamber of Commerce (the "**ICC**") should be recognised and enforced by the courts of Armenia and there is precedent of enforcement of international arbitration clauses and recognition and enforcement of foreign arbitral awards. Nevertheless, it may not be possible as a practical matter to enforce foreign arbitral awards against Armenia possibly due to Armenian courts interpreting widely "public policy" as a ground for refusing recognition and enforcement of the award.

See "*Risk Factors—Risk Factors Relating to an Investment in the Notes—Judgments Relating to Assets in Armenia and Armenian Assets in Other Jurisdictions May Be Difficult to Enforce*," and "*Risk Factors—Risk Factors Relating to an Investment in the Notes—Armenian Courts May Not Enforce Foreign Arbitral Awards*."

## PRESENTATION OF CERTAIN INFORMATION

All references in this Prospectus to the "**Government**" or to the "**National Assembly**" are to the central government and to the Parliament of Armenia, respectively; and references to the "**CIS**" are to the Commonwealth of Independent States.

In this Prospectus, all references to the "**dram**" and "**AMD**" are to the lawful currency of Armenia; all references to "**dollar**" and "**U.S.$**" are to the lawful currency of the United States of America; all references to "**euro**" and "**€**" are to the lawful single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty Establishing the European Community, as amended by the Treaty on the European Union; all references to "**rouble**" and "**RUB**" are to the lawful currency of Russia; and all references to "**SDRs**" are to special drawing rights allocated by the International Monetary Fund (the "**IMF**").

Gross domestic product ("**GDP**") is a measure of the total value of final products and services produced in a country. "**Nominal GDP**" measures the total value of final production in current prices. "**Real GDP**" measures the total value of final production in constant prices, thus allowing historical GDP comparisons that exclude the effect of inflation. For the purposes of this Prospectus, real GDP figures are calculated by reference to 2008 prices.

In this Prospectus, all references to "**ADB**" are to the Asian Development Bank; all references to the "**EBRD**" are to the European Bank for Reconstruction and Development; all references to the "**EDB**" are to the Eurasian Development Bank; all references to "**EEU**" are to the Eurasian Economic Union; all references to the "**EFSD**" are to the Eurasian Fund for Stabilisation and Development; all references to "**EIB**" are to the European Investment Bank; all references to "**IBRD**" or "**World Bank**" are to the International Bank for Reconstruction and Development; all references to the "**IDA**" are to the International Development Association of the World Bank; all references to "**IFAD**" are to the International Fund for Agricultural Development; all references to "**JICA**" are to the Japan International Cooperation Agency; all references to "**OECD**" are to the Organisation of Economic Cooperation and Development; all references to "**OPEC**" are to the Organisation of Petroleum Exporting Countries; and all references to "**UNCTAD**" are to the United Nations Conference on Trade and Development.

All references in this Prospectus to interest accruing from a specified date or to a specified date are to interest accruing from and including the first specified date to but excluding the second specified date.

Except as otherwise provided, translations of amounts from one currency into another currency are solely for the convenience of the reader and are made at various exchange rates. No representation is made that amounts referred to herein could have been, or could be, converted into another currency at any particular exchange rate or at all.

Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from the National Statistics Service of Armenia ("**Armstat**"), the Ministry of Finance, the CBA and other official Government sources. Certain statistics are preliminary and are identified as such where presented. The development of statistical information relating to Armenia is an ongoing process, and revised figures and estimates are produced on a continuous basis and may change further in the future. For this reason, certain data presented herein may differ from data made public previously. All statistical information provided in this Prospectus may differ from that produced by other sources for a variety of reasons, including the use of different definitions and cut-off times. See "*Risk Factors—Risk Factors Relating to Investments in the Emerging Markets—Statistical Information*."

Unless otherwise stated, all annual information, including budget information, is based on calendar years, and interim statistical information has not been annualised. Data included in this Prospectus have been subject to rounding adjustments; accordingly, data shown for the same item of information may vary, and total figures may not be arithmetical sums of their components.

In 2003, Armenia subscribed to the Special Data Dissemination Standard (the "**SDDS**") of the IMF, which is designed to improve the timeliness and quality of information of subscribing member countries. The SDDS requires subscribing member countries to provide schedules indicating, in advance, the date on which data will be released (the "**Advance Release Calendar**"). For Armenia, precise dates or "no-later-than" dates for the release of data under the SDDS are disseminated no later than three months in advance through the Advance Release Calendar, which is published on the Internet under the IMF's Dissemination Standards Bulletin Board.

Summary methodologies of all data and data dissemination practices (metadata) to enhance the transparency of statistical compilation are also provided on the Internet under the IMF's Dissemination Standards Bulletin Board. The website is http://dsbb.imf.org/pages/sdds/home.aspx.

## FORWARD LOOKING STATEMENTS

This Prospectus includes forward looking statements. All statements other than statements of historical fact included in this Prospectus regarding, among other things, Armenia's economy, fiscal condition, politics, debt or prospects may constitute forward looking statements. In addition, forward looking statements generally can be identified by the use of forward looking terminology such as "may," "will," "expect," "project," "intend," "estimate," "anticipate," "believe," "continue," "could," "should," "would" or the like.

Although Armenia believes that expectations reflected in its forward looking statements are reasonable as at the date of this Prospectus, there can be no assurance that such expectations will prove to have been correct. Armenia undertakes no obligation to update the forward looking statements contained in this Prospectus or any other forward looking statement it may make.

For Armenia, in addition to the factors described in this Prospectus, including, but not limited to, those discussed under "Risk Factors," the following factors, among others, could cause future conditions to differ materially from those expressed in any forward looking statements made herein:

- adverse external factors, such as global or regional economic slowdowns that may affect Armenia, higher international interest rates, reduced demand for Armenia's exports or increases in oil and gas prices, which could each adversely affect Armenia's economy;

- adverse domestic factors, such as recession, declines in foreign direct investment ("**FDI**") and portfolio investment, high domestic inflation, high domestic interest rates, exchange rate volatility, a reduction in oil and gas supplies, difficulties in borrowing on the domestic or foreign markets, trade and political disputes between Armenia and its trading partners and neighbours (in particular, an escalation of the conflict in Nagorno-Karabakh), political uncertainty or lack of political consensus;

- decisions of Armenia's creditors regarding the provision of new debt or the rescheduling of existing debt and decisions of international financial institutions, such as the IMF, the World Bank, the EBRD and the ADB, regarding the terms of their financial assistance to Armenia and the funding of new or existing projects in Armenia and accordingly the net cash flow to or from such international organisations over the life of the Notes; and

- political factors in Armenia, which may affect, *inter alia*, the timing and structure of economic reforms in Armenia and the climate for FDI.

## EXCHANGE RATES

For ease of presentation, certain financial information included herein is presented as translated into dollars and euros.

The following tables set forth, for the periods indicated, the exchange rate history of the dram relative to the dollar, euro and rouble, respectively:

### Dram to Dollar Exchange Rate History

| Year | Low | High | Period average(1) | Period End |
|---|---|---|---|---|
| 2019 (through 31 August 2019) | 475.74 | 490.68 | 481.99 | 476.10 |
| 2018 | 480.06 | 488.68 | 482.99 | 483.75 |
| 2017 | 477.78 | 488.03 | 482.72 | 484.10 |
| 2016 | 473.29 | 496.11 | 480.49 | 483.94 |
| 2015 | 469.79 | 485.61 | 477.92 | 483.75 |
| 2014 | 405.95 | 527.20 | 415.92 | 474.97 |

Note:

(1) The average rates are calculated as the average of the monthly exchange rates for the period. Average monthly exchange rates are calculated as the average of the daily exchange rates for the relevant month.

*Source:* CBA.

### Dram to Euro Exchange Rate History

| Year | Low | High | Period average(1) | Period End |
|---|---|---|---|---|
| 2019 (through 31 August 2019) | 525.37 | 559.75 | 542.84 | 525.71 |
| 2018 | 546.97 | 602.52 | 570.73 | 553.65 |
| 2017 | 509.93 | 580.10 | 545.25 | 580.10 |
| 2016 | 499.81 | 561.41 | 531.85 | 512.20 |
| 2015 | 500.47 | 577.47 | 530.60 | 528.69 |
| 2014 | 512.36 | 656.94 | 552.11 | 577.47 |

Note:

(1) The average rates are calculated as the average of the monthly exchange rates for the period. Average monthly exchange rates are calculated as the average of the daily exchange rates for the relevant month.

*Source:* CBA.

### Dram to Rouble Exchange Rate History

| Year | Low | High | Period average(1) | Period End |
|---|---|---|---|---|
| 2019 (through 31 August 2019) | 7.12 | 7.64 | 7.42 | 7.17 |
| 2018 | 6.92 | 8.62 | 7.73 | 6.97 |
| 2017 | 7.89 | 8.66 | 8.28 | 8.40 |
| 2016 | 5.77 | 8.04 | 7.19 | 7.88 |
| 2015 | 6.62 | 9.82 | 7.89 | 6.62 |
| 2014 | 7.46 | 12.32 | 10.98 | 8.15 |

Note:

(1) The average rates are calculated as the average of the monthly exchange rates for the period. Average monthly exchange rates are calculated as the average of the daily exchange rates for the relevant month.

*Source:* CBA.

As of 23 September 2019, the exchange rates published by the CBA were AMD476.26 = U.S.$1.00, AMD522.98 = €1.00 and AMD7.44 = RUB1.00.

**TABLE OF CONTENTS**

## OVERVIEW

The overview below describes the principal terms of the Notes and is qualified in its entirety by the more detailed information contained elsewhere in this Prospectus. Capitalised terms used herein and not otherwise defined have the respective meanings given to them in the "*Terms and Conditions of the Notes*" (the "**Conditions**").

| | |
|---|---|
| **Issuer:** | Republic of Armenia, acting through the Ministry of Finance of Armenia |
| **Legal Entity Identifier:** | 2549008QLWTFS81EUF38 |
| **Notes:** | U.S.$500,000,000 3.95 per cent. Notes due 2029 |
| **Issue Date:** | 26 September 2019 |
| **Maturity Date:** | 26 September 2029 |
| **Issue Price:** | 97.976 per cent of the principal amount of the Notes |
| **Interest:** | The Notes bear interest from 26 September 2019 at 3.95 per cent. per annum, payable semi-annually in arrear, on 26 March and 26 September in each year, commencing on 26 March 2020 |
| **Redemption:** | The Issuer will redeem the Notes at their principal amount on the Maturity Date.<br><br>See "*Terms and Conditions of the Notes—5. Redemption and Purchase*." |
| **Denominations:** | The Notes will be offered and sold, and may only be transferred, in minimum principal amounts of U.S.$200,000 and integral multiples of U.S.$1,000. |
| **Status:** | The Notes are the direct, unconditional and unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured Public External Indebtedness of the Issuer, from time to time outstanding, provided, further, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other Public External Indebtedness and, in particular, shall have no obligation to pay other Public External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa, as further described under "*Terms and Conditions of the Notes—1. Form, Denomination, Title and Status*." |
| **Events of Default:** | The Conditions will permit the acceleration of the Notes following the occurrence of certain events of default.<br><br>Holders of not less than 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.<br><br>If the Issuer receives notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Notes to |

| | |
|---|---|
| | the effect that the Event of Default or Events of Default giving rise to any such declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further force or effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.<br><br>See "*Terms and Conditions of the Notes—8. Events of Default*." |
| **Negative Pledge:** | So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement) the Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") upon the whole or any part of the assets or revenues present or future of the Government of Armenia or the Ministry of Finance of Armenia to secure any of its Public External Indebtedness, or any guarantee of or indemnity in respect of any Public External Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Notes (i) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in Condition 11) of the Noteholders.<br><br>See "*Terms and Conditions of the Notes—3. Negative Pledge*." |
| **Taxation:** | All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Armenia or any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. If such withholding or deduction is required by law, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions set out in "*Terms and Conditions of the Notes—7. Taxation*." |
| **Modification and Amendment:** | The terms and conditions of the Notes may be modified as a single series of Notes or, in respect of other debt securities containing substantively similar aggregation provisions to those applicable to the Notes. Each such amendment will be binding on all Noteholders, whether or not they voted in favour of such amendment or at all.<br><br>See "*Terms and Conditions of the Notes—11. Meetings of Noteholders, Written Resolutions*." |
| **Governing Law:** | The Notes will be governed by English law. |

| | |
|---|---|
| **Listing and Admission to Trading:** | Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the Market. |
| **Ratings:** | The Notes are expected to be rated Ba3 by Moody's Investors Service, Ltd. ("**Moody's**") and B+ by Fitch Ratings Ltd. ("**Fitch**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.<br><br>Each of the rating agencies is established in the European Union (the "**EU**") and is registered under Regulation (EU) No 1060/2009 (as amended) (the "**CRA Regulation**"). |
| **Use and Estimated Net Amount of Proceeds:** | The estimated net proceeds of the issue of the Notes, after deduction of commissions, will be U.S.$489,505,000. In addition, estimated expenses in connection with the issue of the Notes and the Issuer's Tender Offer (as defined herein) in the amount of U.S.$475,000 will be paid out of the State Budget. U.S.$427,867,748.75 of the estimated net proceeds will be used to pay the purchase price and accrued interest for the notes the Issuer purchases pursuant to the Tender Offer. The remaining estimated net proceeds will be used for the repayment of the remaining outstanding 2013 Eurobonds when they mature in September 2020. Any further net proceeds will be applied to general governmental purposes. |
| **Transfer Restrictions:** | The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Consequently, the Notes may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws.<br><br>See "*Transfer Restrictions*." |
| **Risk Factors:** | For a discussion of certain risk factors relating to the Issuer and the Notes that prospective investors should carefully consider prior to making an investment in the Notes.<br><br>See "*Risk Factors*." |
| **Fiscal Agent, Exchange Agent, Registrar, Transfer Agent and Paying Agent:** | Citibank, N.A., London Branch |
| **ISINs:** | XS2010043904 (Unrestricted Global Note)<br><br>US042207AC41 (Restricted Global Note) |
| **Common Codes:** | 201004390 (Unrestricted Global Note)<br><br>111730504 (Restricted Global Note) |

## RISK FACTORS

*Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus and, in particular, should consider, among other things, all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest.*

*If any of the risks discussed below is realised, in part or in whole, individually or in some combination, the value of the Notes could decline, and such circumstance could have a material adverse effect on Armenia's ability to pay principal, interest and other amounts due on the Notes, so that investors could lose some or all of their investment.*

*Armenia believes that the risk factors described below represent the principal risks in relation to investing in the Notes, but does not represent that such risks are exhaustive. Prospective investors should note that Armenia may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons. There may be additional risks and uncertainties that Armenia currently considers immaterial or of which Armenia is currently unaware, and any of these risks and uncertainties could have similar effects as those set forth below or other adverse effects. Prospective purchasers of Notes should make such inquiries as they think appropriate regarding Armenia and the Notes prior to making any investment decision.*

### Risk Factors Relating to Armenia

#### *Political Risk Associated with a Transitional Democracy*

With its independence only re-established in 1991 and with no historic tradition of democratic rule, Armenia remains a transitional democracy, its political institutions still maturing. Presidential elections have in the past been marred by allegations of irregularities, the worst case of disputed elections taking place in 2008, when 10 people died in violent protests, resulting in a declaration of a 20-day state of emergency. The most recent nationwide snap elections, conducted in December 2018 to elect a new parliament, were widely perceived as free and fair, and drew muted criticism from losing parties as compared to prior elections.

As a transitional democracy, Armenia's political institutions may be less stable than political institutions in mature democracies, may not carry the same institutional legitimacy as in the case of mature democracies, and may be more prone to the effects of mass demonstrations and street protests. In April 2018, mass protests triggered by the transition of Serzh Sargsyan to the office of Prime Minister following his two consecutive terms as the President brought about his resignation and the National Assembly electing as the new Prime Minister the leader of the mass demonstrations, Nikol Pashinyan. See "*Description of Armenia—History*." Other former members of the Soviet Union – such as Ukraine, Georgia and Kyrgyzstan – have had popular uprisings resulting in extra-constitutional transfers of power or contested elections being repeated, although this has not happened in Armenia. Economic hardship, increased unemployment, decreased remittances from Armenians abroad, increased food prices, perceived Governmental mismanagement or other events could provoke social unrest. Accordingly, while the Government is currently pursuing a course of political, economic and regulatory reforms, such reforms may not continue. The pursuit of reforms and economic growth may be frustrated as a result of a change in Government or changes affecting the stability of the Government or as a result of a rejection or reversal of Governmental policies.

#### *Regional Tensions – Nagorno-Karabakh and Relations with Azerbaijan*

The dissolution of the Soviet Union not only allowed its constituent republics, including Armenia, to become sovereign nation states, but led other subnational jurisdictions to assert claims for independence, sometimes leading to violent clashes.

A largely ethnic Armenian enclave, Nagorno-Karabakh during Soviet times was administered as the Nagorno-Karabakh Autonomous Oblast (within the Azerbaijan Soviet Socialist Republic) affording some degree of local autonomy. Azerbaijan's declaration of independence from the Soviet Union on 30 August 1991 led, in turn, to the declaration of independence by the Nagorno-Karabakh Autonomous Oblast in September 1991. In December 1991, in a referendum carried out in accordance with then-applicable Soviet law, as well as public international law, the population of Nagorno-Karabakh voted in favour of the establishment of the Nagorno-Karabakh Republic. Thus, on the territory of the former Azerbaijan Soviet Socialist Republic, two equal state formations were created – the Nagorno-Karabakh Republic and the Republic of Azerbaijan. To date, no country (including Armenia) has recognised the Nagorno-Karabakh Republic.

Full-scale hostilities broke out in 1991-1992, with Armenia supporting the Nagorno-Karabakh Republic. There were thousands of casualties. In May 1994, a Russian-brokered cease-fire signed by representatives of Azerbaijan, Armenia and Nagorno-Karabakh ended large-scale warfare and established truce lines that endure to this day. The truce line encompasses significant territory inside Azerbaijan beyond the borders of the Nagorno-Karabakh Republic as well as some territory within the Nagorno-Karabakh Republic. At present, negotiations are mediated by the Co-Chairs of the Minsk Group (France, Russia and the United States) under the auspices of the Organisation for Security and Co-operation in Europe (the "**OSCE**"). Despite ongoing efforts, a definitive settlement has yet to be reached, and skirmishes continue to break out from time to time along the truce line. In the summer of 2014, an outbreak of fighting along the ceasefire line led to the deaths of over 20 soldiers. On 2 April 2016, heavy fighting broke out over four days along the line of contact at two positions where Azeri forces were attempting to make advances, resulting in casualties of at least 100 soldiers from both sides, as well as significant civilian casualties, thus marking the worst escalation in violence over Nagorno-Karabakh since the 1994 cease-fire agreement.

Armenia believes that non-use of force and commitment not to use force are imperative for the peace process, and the participation of elected representatives of Nagorno-Karabakh in the peace process is essential. Armenia is committed to protecting the territorial integrity of Nagorno-Karabakh.

The Nagorno-Karabakh conflict has had serious repercussions for Armenia. In 1993 Turkey, in solidarity with Azerbaijan, closed its land border with Armenia, which remains closed to this day, and Azerbaijan has kept its borders closed, depriving Armenia of the benefits of significant mutual trade and severely limiting Armenia's access to international trade routes. See "*—Limited Routes for Exports*." Armenia is not well-integrated into the regional economy and has been effectively excluded from major cross-border infrastructure projects traversing the South Caucasus such as the Baku (Azerbaijan)-Tbilisi (Georgia)-Ceyhan (Turkey) oil pipeline, the Baku-Tbilisi-Erzurum (Turkey) natural gas pipeline and the Baku-Tbilisi-Kars (Turkey) railway, which are routed to circumvent the Armenian border. The need to defend Nagorno-Karabakh also contributes to a relatively high defence expenditure for Armenia (16.5% of the total state expenditure in 2018). See "*Public Finance—Public Accounts—Expenditures*."

An escalation in hostilities arising from the situation in Nagorno-Karabakh could materially disrupt the Armenian economy, require Armenia to make substantial expenditures to defend its positions and have negative consequences for Armenia in its international diplomatic and trade relations.

***Relations with Russia***

Armenia has historically maintained good and friendly relations with Russia, which is vital for Armenia given the role that Russia plays in Armenia's trade and investment, workers' remittances, energy supply and distribution and military security.

While the Armenian economy is de-coupling from the Russian economy, it remains possible that a significant downturn in the Russian economy could have negative repercussions for the Armenian economy. See "*—Vulnerability to Global/Regional Economic Conditions and Commodities Markets and to the Russian Economy*."

On 2 January 2015, Armenia joined the EEU, which seeks to integrate the economies of its member states. The other current EEU member-states are Russia, Belarus, Kazakhstan and the Kyrgyz Republic. Armenia is part of the EEU's customs union and no tariffs apply within the EEU. Armenia's entry into the EEU entails a gradual transition (with scheduled completion by 2022) to the unified tariff system of the EEU, as a result of which some tariffs have increased (according to WTO statistics, from 2009 to 2018 the applied average tariff in Armenia increased from 2.7% to 7.5%) and will further increase until 2022 when the transitional period ends. Armenia shares no contiguous border with any EEU member state, and goods transiting between Armenia and another EEU state through Georgia still need to undergo procedural formalities and incur road charges in connection with passage through Georgia (although no Georgian customs duties are payable on such goods). As a result, Armenia may not fully exploit the benefits of EEU membership.

Natural gas is Armenia's main source of primary energy (providing heat to almost all Armenian consumers and used to generate over 40% of its electricity) and Armenia imports roughly 83% (2015-2018 average) of its natural gas supply from Russia (via a pipeline that crosses Georgia) with Gazprom Export (a subsidiary of Gazprom, Russia's national gas company) selling supply to Gazprom's subsidiary Gazprom Armenia, which in turn sells to end-customers in Armenia at tariff rates established by the Armenian Public Services Regulatory Commission.

In December 2013, Armenia and Russia entered into a five-year long interstate agreement, under which Russia agreed, taking into account a 30% discount (due to the waiver of Russian export duty to EEU members), to sell gas to Armenia at U.S.$189 per 1,000 cubic metres through 2018 (the "**Gas Price Agreement**"). Subsequent amendments to the Gas Price Agreement has set pricing per 1,000 cubic metres at U.S.$165 from 1 January 2015 to 31 March 2015, at U.S.$150 from 1 April 2015 through 31 December 2018 and at U.S.$165 from 1 January 2019 to 31 December 2019, a price significantly lower than the average price Gazprom charges its European clients (which stands at approximately U.S.$250 per 1,000 cubic metres as of the first quarter of 2019).

If for any reason the Russian supply of natural gas to Armenia is interrupted (including due to any outbreak of hostilities or terrorist act damaging the gas pipeline or closure of the connecting pipeline across Georgia, which had a military conflict with Russia in 2008) or should Gazprom significantly increase the price at which it sells natural gas to Armenia, such events could have a material adverse effect on Armenia's economy.

Likewise, Russian companies (including state-owned entities) provide a significant amount of the petroleum products used in Armenia. Further, Armenia's electricity distribution network has been owned by Tashir, a large Russian group of industrial and construction companies, since December 2016. In December 2014, it was announced that Rosatom, the Russian state-owned nuclear power company, would undertake a project to extend the operating lifetime of the second power unit of Metsamor Nuclear Power Plant (the "**Metsamor Plant**") to 2026. In February 2015, Russia agreed to provide a U.S.$270 million loan (and also a U.S.$30 million grant to support safety upgrades) to finance this project, now expected to be completed in 2020-2021. In July 2019, Armenian Deputy Prime Minister Tigran Avinyan announced that Armenia was negotiating with Russia for the construction of a new nuclear power plant to replace the Metsamor Plant after its decommissioning. See "*Economy of Armenia—Energy—Electricity*." Russia has also provided important economic support to Armenia in past years, including a U.S.$500 million loan in 2009 to provide fiscal assistance (repaid in 2013).

Russia is also Armenia's principal military ally. Russia maintains a base in the country with roughly 3,000 troops under an arrangement that lasts to 2044. Russian guards help patrol Armenia's borders with Iran and Turkey. Russia is the chief supplier of arms to the Armenian military.

The new Armenian Government led by Prime Minister Nikol Pashinyan has confirmed the importance of maintaining strong relations with Russia and this intention is reflected in a new five-year Government programme adopted in 2019 (the "**2019 Government Programme**").

Although Russia is Armenia's traditional ally, any deterioration in their relations could, in light of Russia's vital economic, energy and military importance to Armenia, have significant effect on Armenia's economy and security.

***Vulnerability to Global/Regional Economic Conditions and Commodities Markets and to the Russian Economy***

Armenia has a relatively small economy (nominal GDP in 2018 of U.S.$12.4 billion); low nominal GDP per capita (U.S.$4,188 in 2018); and a high poverty rate (25.7% of the population in 2017). As such, the Armenian economy is sensitive to exogenous economic developments.

In terms of sector exposure, mining and base metals accounted for 42.5% of Armenia's exports in 2017 and 39% in 2018. Accordingly, Armenia has a relatively narrow export base and is particularly vulnerable to global demand for mining and metals products, which tends to be cyclical, reflecting global production and demand. A sustained downturn in metals prices, in particular for Armenia's chief metal exports – copper, aluminium, molybdenum, precious and ferrous metals – could have a material adverse impact on the Armenian economy.

More generally, decreased demand of any of Armenia's major trading partners, such as the EU member states (which together comprise Armenia's largest export market) and Russia (which is Armenia's largest single-country export market, in part due to their mutual participation in the EEU), could have a material adverse impact on Armenia's balance of trade and on the export-oriented sectors of Armenia's economy. The significant fall in the rouble over late 2014 and 2015 made Armenian exports to Russia more expensive and, as there is some correlation between the trading value of the rouble and the dram, put pressure on the dram.

Historically, remittances to Armenia, predominantly sourced from Russia, have been an important feature of the Armenian economy, although remittances as a percentage of GDP have declined from 14.4% in 2014 to 9.3% in 2018, and such proportion is expected to continue to decline. The Armenian economy is de-coupling from the Russian economy in part due to the decline (as a percentage of GDP) of remittances from Russia and going ahead due to a more diversified Armenian economy (including IT services, tourism and textiles/clothing) and more-diverse, higher-quality FDI. This de-coupling is evidenced by the Armenian economy and the dram remaining strong the past years two years during which the Russian economy was sluggish and the Russian rouble volatile. Nonetheless, a significant downturn in the Russian economy (which itself is highly dependent on global natural resource prices) could have negative repercussions for the Armenian economy.

***Vulnerability to Sanctions Imposed on Russia***

The European Union nations and the United States (as well as other countries such as Australia, Canada, Japan and Switzerland) have imposed several rounds of economic sanctions against Russian entities and individuals. Among other measures, the EU and U.S. nationals were prohibited to do business with certain Russian citizens, whose assets in the EU and the U.S. were 'frozen' or immobilised. A number of Russian government officials, businessmen, banks and companies have been targeted. Another approach these sanctions have taken, with greater consequence for the Russian economy, are so-called 'sectoral' sanctions that effectively restrict access of Russia's leading banks and oil and gas companies (as specifically identified in the sanctions) to Western capital and financial markets. Further sanctions are possible. An executive order issued by the President of the United States on 1 August 2019 contemplated the possibility of further U.S. sanctions, including a prohibition on U.S. banks participating in the primary market for non-rouble-denominated bonds issued by the Russian sovereign and lending non-rouble-denominated funds to the Russia sovereign.

Sanctions have had the effect, magnifying over time, of adding to the overall cost of capital in Russia and are a factor in the slower (or reduced) growth of the Russian economy, which in turn negatively impacts the Armenian economy, including its growth prospects and FDI and remittance flows. See "*—Relations with Russia*" and "*—Vulnerability to Global/Regional Economic Conditions and Commodities Markets and to the Russian Economy*." If persons, including Armenian persons, conduct business with sanctioned Russian persons, there could be calls for such persons themselves to be directly sanctioned.

***Relations with the Islamic Republic of Iran***

Armenia has generally enjoyed cordial relations with Iran since independence in 1991. While there is limited transport infrastructure between the two countries, there is some trade between them: in 2018, Armenia exported U.S.$94.2 million of goods to Iran (3.9% of value of total exports) and imported U.S.$269.3 million of goods from Iran (5.4% of value of total imports). The border with Iran is Armenia's only alternative open border to the rest of the world from routing via Georgia, and accordingly if for any reason the Georgian borders are effectively closed, as happened in connection with the August 2008 Georgian-Russian conflict, then the Iranian trade route would become a vital supply route for Armenia.

The single biggest source of trade between the countries is the exchange of natural gas (provided by the state-owned entity National Iranian Gas Company) for electricity (provided by the state-owned entity Yerevan Thermal Power Station); gas supplies are delivered by means of a gas pipeline which came into operation in May 2009. The Iranian gas is bartered for Armenian electricity (with Armenia using more of the gas for its own domestic needs – especially heating – in the winter months and providing more electricity generated by the use of the supplied gas to Iran during the summer months). In 2018, 500 million cubic metres of gas were supplied under this arrangement, roughly 17% of Armenia's natural gas supply. The completion of a new high-voltage transmission line to Iran expected to be finished in 2020-2021 will allow significantly more electricity to be exported to Iran. See "*Economy of Armenia—Energy—Electricity*."

In 2016, sanctions imposed by the United Nations against Iran were lifted following adoption of the Joint Comprehensive Plan of Action regarding the Iranian nuclear programme. Following unilateral withdrawal by the United States from the Joint Comprehensive Plan of Action and introduction by the United States of a new set of sanctions against Iran, Iran has recommenced active enrichment of uranium, which could eventually result in the re-imposition of international sanctions. The Armenian authorities (principally the Ministry of Foreign Affairs, the Financial Monitoring Centre of the CBA (the "**FMC**") and the Prosecutor's Office) monitor compliance by Armenia with its international obligations. Armenia is conscious of its commitments to international economic sanctions and maintains appropriate internal policies with respect to sanctioned entities or countries, such as Iran (including the monitoring of UN, OFAC, EU and other applicable sanctions lists).

While Armenia believes such policies are an effective means to monitor its commitments with international sanctions regimes, there can be no assurance that Armenia will not inadvertently deal (or be alleged to have dealt) with sanctioned entities or countries in a way that may violate international sanctions.

In 2017, Armenia established a free-economic-zone adjacent to the border with Iran near the town of Meghri, offering tax benefits to foreign and Armenian businesses operating there – it is hoped this may attract Iranian businesses in light of Armenian's access to the EEU and EU markets on no-tariff or low-tariff terms.

On 2 July 2019, in the margins of the 16th meeting of the Armenia-Iran Intergovernmental Commission a Memorandum of Understanding was signed, under which opportunities for cooperation between the two states in the areas of energy, nature protection, transport, finance, trade and others are to be explored. In this process Armenia will remain cognizant of relevant sanctions regimes.

The closure of the border with Iran (especially at a time when Armenia's principal trade route via Georgia is effectively closed) due to international sanctions or the outbreak of hostilities involving Iran could have a material adverse impact on the Armenian economy as could the imposition of sanctions having the effect of curbing existing trade relations between the countries, in particular the current arrangement for the barter of natural gas for electricity.

***Limited Routes for Exports***

Armenia's borders with Azerbaijan and land border with Turkey remain closed as a consequence of the Nagorno-Karabakh conflict and the absence of diplomatic relations with Turkey. While Armenia's border with Iran is open, the lack of modern transport infrastructure between the countries (as well as U.S. sanctions) severely constrains Armenia's ability to trade with Iran and to export its goods via Iran (especially during the winter months). As such, Armenia's single practical export route is via Georgia. Georgia's relations with Russia have sometimes been strained, in 2008 to the point of armed conflict, and at times resulted in trade largely halting across the Georgian-Russian frontier. When that occurred, emergency deliveries of wheat, diesel fuel and other goods from Iran were organised, but such deliveries may not be possible in the future due to sanctions or a conflict involving Iran. The lack of practical export routes other than via Georgia increases the cost of transport of Armenia's exports. Moreover, limited routes for exports may contribute to the widening of the current deficit of the country (see "*—Current Account Deficit*").

***Lack of Economic Diversification and Competition***

The lack and uncertainty of export routes for Armenian goods, together with a relatively small domestic base and geopolitical concerns, has discouraged investment into and development of the Armenian economy, which helps explain Armenia's historic lack of economic diversification and outdated technological base, although recent growth in the IT services, tourism and textiles/clothing marks encouraging new avenues of growth. FDI in Armenia is relatively low: total FDI was U.S.$254.2 million in 2018. In turn, this has allowed a relatively small number of exporters and importers to at times dominate certain markets, decreasing competition and fostering oligopolistic behaviour. The World Economic Forum has ranked Armenia 70th out of 180 countries in terms of the intensity of local competition in its Global Competitiveness Report for 2018. Furthermore, these circumstances contribute towards the relatively high unemployment rate in Armenia (16.3% in 2018 and 21.9% in the first quarter of 2019). The new Government has set as a priority making further progress towards achieving a more competitive, private-sector-led, dynamic economy, featuring more inclusive growth, based on good governance and fair competition.

***Tax Collection and 2019 Tax Reform***

Armenia's ability to administer and collect taxes falls short of Western norms, and improved tax collection has been identified by international organisations as a critical measure to bolster the state's finances. In 2018, tax revenues were 20.8% of GDP. While there have been recent improvements in tax and customs administration (as evidenced by higher tax revenues than budgeted in the first six months of 2019), lack of further progress in Armenia's ability to efficiently assess, collect and enforce taxes on a consistent, even-handed basis for all taxpayers (yet in a business-friendly manner) could have a material adverse effect on the financial and economic condition of Armenia.

In June 2019, the National Assembly adopted the following tax reform legislation (the "**2019 Tax Reform**"), under which:

- a flat income tax of 23% would be established for individuals starting in 2020, further reduced to 20% by 2023, replacing the current regime of a progressive income tax with rates from 23% to 36%;
- from 2020, corporate profit tax rate reduced from 20% to 18%;
- from 2020, tax on dividends for non-residents reduced from 10% to 5%;
- from July 2019, revenue ceiling (VAT threshold) for small business exempt from corporate profit tax and VAT raised from AMD58 million to AMD115 million.

See "*Public Finance—Armenian Tax System*."

While it is proposed that the 2019 Tax Reform will ultimately increase GDP by 0.8% in the long run and spur consumption growth by an estimated 0.3-0.4% and employment growth by 0.5%, the Ministry of Finance has at the same time estimated that the 2019 Tax Reform will immediately reduce annual tax revenues by AMD16 billion. This reduction will be offset in part by stepped increases in excise tax rates (*e.g.*, on tobacco and alcohol) and state duties. It is also envisaged that this loss in tax revenues will be offset by improved tax administration and by revisions to the property tax system expected in a second phase of the tax reforms planned to come into force in 2021.

There can be no assurance that the 2019 Tax Reform will succeed; and it may lead to a sustained reduction in tax revenues, which other new taxes may not offset. This would contribute to widening fiscal deficits, and in turn may result in increased Government borrowing, which could have a material adverse impact on the financial and economic condition of Armenia.

***External Debt Burden***

Armenia's total Public Debt (as defined herein) has increased from U.S.$4.4 billion (43.7% of GDP) in 2014 to U.S.$6.9 billion (55.8% of GDP) in 2018; total External Public Debt has increased from U.S.$3.8 billion in 2014 to U.S.$5.5 billion in 2018. Much of this increase in debt has been funded by multilateral institutions such as the World Bank on concessionary terms. As of 31 December 2018, External Public Debt amounted to U.S.$5.5 billion, U.S.$3.2 billion of which was funded by multilateral institutions and U.S.$0.8 billion of which was funded by the issuance of U.S.$700,000,000 6.000% Notes due 2020 (the "**2013 Eurobond**") and of US$500,000,000 7.150% Notes due 2025 (the **"2015 Eurobond"**). As of 31 December 2018, the average weighted interest rate on External Public Debt was approximately 3% per annum, and the average contractual maturity was approximately 8.6 years. As of 31 December 2018, approximately 78.1% of Armenia's External Public Debt portfolio carried fixed interest rates, and the remainder carried floating rates. Multilateral lenders have also provided significant financing to the Armenian banking sector. Armenia has good relations with its multilateral lenders and seeks to satisfy the conditions of their lending programmes, but if multilateral lenders were to curtail future lending to Armenia, that could have a material adverse effect on the financial and economic condition of Armenia. As Armenia graduates from concessional financings from multilateral institutions, its borrowing costs are expected to increase. Depreciation of the dram increases the cost, in dram terms, of servicing Armenia's External Public Debt. Armenia's relatively high levels of debt (as measured against its GDP) may constrain its ability to attract new net financing.

***Current Account Deficit***

Armenia's current account deficit was U.S.$0.3 billion in 2017 (3.0% of GDP); in 2018 it widened to U.S.$1.2 billion (9.4% of GDP), largely reflecting, as the IMF found, a rebound in imports (up 16.1% year on year) on the back of recovery in domestic demand (while exports were up 9.0%). See "*External Sector—Balance of Payments*." A widening of the current account deficit may result in a further increase in the levels of Government borrowing to finance the current account deficit and a depreciation of the dram; it may also affect the capacity of Armenia's economy to generate foreign currency assets sufficient to cover liabilities arising from private external debt and External Public Debt. As the IMF has observed, the combination of the current account deficit and high dollarisation of the Armenian economy leave it vulnerable to shocks. A widening current account deficit could have a material adverse effect on the financial and economic condition of Armenia.

### *Fiscal Deficit*

Over the past decade, Armenia has consistently run a fiscal deficit. In 2016, the fiscal deficit was 5.5% of GDP; in 2017, 4.8%; in 2018, 1.8%; and in 2019 it is budgeted to be 2.2%. The fiscal deficit has been largely funded by a combination of increased borrowing, especially funding from multilateral institutions, and the issuance of dram-denominated treasury bills in the domestic capital markets. To the extent such fiscal deficits continue, the lack of future debt funding (or the deterioration of terms on which funding is made) could have a material adverse effect on the financial and economic condition of Armenia. The Government has been able to manage the fiscal deficit in recent years, but there is no assurance this will remain the case, especially if the Government needs to address an economic downturn or if fiscal policy loosens. In general, social pressures may restrain the Government's ability to prioritise lower fiscal deficits over social needs. Increasing fiscal deficits could have a material adverse effect on the financial and economic condition of Armenia.

### *Dollarisation of the Economy*

Reflecting concerns over the stability of the dram, the Armenian economy has become highly dollarised. Residents' foreign currency deposits as a share of residents' all deposits stood at 55.43% in 2017 and 51.8% in 2018, respectively. Residents' foreign currency loans accounted for 61.4% of residents' all loans in 2017 and 54.1% in 2018, respectively. While the CBA is taking steps to decrease dollarisation, there can be no assurance that such efforts will be successful. The dollarisation rate tempers the effectiveness of the CBA's monetary and exchange rate policies and makes the Armenian economy more vulnerable to external shocks. Armenian banks are also exposed to the risk that borrowers are borrowing in foreign currencies but their revenues are in drams. See "*Monetary and Financial System—Monetary Policy of the CBA—Implementation*."

### *Inflation*

Annual inflation in Armenia, as measured by the end-of-period Consumer Price Index ("**CPI**"), was 1.8% in 2018, 2.6% in 2017, while featuring a negative rate of 1.1% and 0.1% in 2016 and 2015, respectively, at the backdrop of a slowdown in the global economy and a relatively weak domestic demand. In 2014, Armenia's end-of-year annual CPI inflation rate was 4.6%, which was largely attributable to a regional currency crisis along with the depreciation of Armenian dram. See "*Monetary and Financial System—Monetary Policy of the CBA—Inflation*." Historically, inflation in Armenia has been volatile, in part because food comprised roughly half of the CPI basket (currently, food and non-alcoholic beverages make up over 40% of the CPI composition). In the 1990s, Armenia suffered from hyperinflation. While the CBA has in recent years been able to manage the inflation by implementing a prudent monetary policy, it may not be able to do so in the future. Sustained high inflation (as experienced by Armenia in the 1990s) could lead to market instability, a reduction in consumer purchasing power, erosion of consumer confidence, and could also hamper efforts of the CBA to decrease the dollarisation of the Armenian economy (see "*—Dollarisation of the Economy*"). Any of these events could have a material adverse impact on the financial and economic condition of Armenia.

### *Depreciation of Dram and Consequences for Foreign Exchange Reserves and Public Finance*

At times, there has been significant volatility in the dram/dollar exchange rate such as in the spring of 2009, which was mainly due to the consequences of the global economic crisis, and in late 2014 and 2015, which was mainly due to the faltering Russian economy together with public concern about the strength of the dram in light of the fall of the rouble. In addition, a contraction of net capital inflows to the economy that would lead to further pressure on the dram could arise from changes in the expectations of monetary intervention by the central banks of developed countries (*e.g.*, by the U.S. Federal Reserve or the European Central Bank).

In March 2009, the dram/dollar exchange rate fell from AMD305.8/dollar to AMD367.7/dollar, a 20% decline. Between September 2008 and March 2009, the CBA expended significant amounts of foreign reserves to defend the dram, which was intended to help banks, and more specifically their customers, adjust to the depreciating dram, lessen the impact of the crisis and prevent runs on the banks by depositors. Subsequently, and in keeping with the recommendation of the IMF, the CBA has allowed greater exchange rate flexibility. But it remains possible that should pressure develop on the dram the CBA may expend reserves in its defence, depleting Armenia's foreign exchange reserves, which may adversely affect Armenia's ability to service its Public External Debt as well as the financial and economic condition of Armenia.

The dram/dollar exchange rate experienced significant depreciation from 17 November 2014 at AMD415.7/dollar to 17 December at AMD527.2/dollar, a 27% decline. See "*—Relations with Russia*." On

17 December 2014, the CBA doubled its reserve requirement for Armenian banks on their exposure to foreign-currency liabilities from 12% to 24% (with the reserve to be held in drams), which had the effect of immediately stabilising the dram. From 1 January 2015 through 31 July 2019, the dram has been relatively stable, trading within a range of AMD496.11/dollar (the lowest dram value, on February 16, 2016) and AMD469.79/dollar (the highest dram value, on October 23, 2015) but it is possible volatility in the rate will return.

As of 31 December 2018, 50.2% of Armenia's total External Public Debt was in U.S.$, 31.9% was in SDRs, and the remainder in other foreign currencies. Depreciation of the dram against the dollar (or other foreign currencies in which Armenia's Public Debt (as defined herein) is denominated or payable) negatively affects Armenian public finances, because it results in an increase in the dram amount of Armenian public funds required for debt servicing. In addition, the share of foreign currency denominated loans (including loans indexed to foreign currency) in private lending was 50.6% as of 31 December 2018 so that private Armenian borrowers are also exposed to exchange rate risk. Furthermore, depreciation of the dram increases prices of imported goods. Accordingly, an abrupt and significant fall of the dram against foreign currencies (and in particular against the dollar), as was experienced during 2009 and late 2014, may adversely affect the financial and economic condition of Armenia.

***Possible Environmental Issues at the Amulsar Gold Mine and Possible Claims by Mine Owner***

Mining comprises an important sector of the Armenian economy, accounting for 2.9% of nominal GDP in 2018, and in turn feeds related manufacturing activities. Mining has also traditionally been an important source of FDI into Armenia.

One of the largest mines under development in recent years has been the Amulsar gold mine (the "**Amulsar Mine**") located outside the mountain spa town of Jermuk, approximately 170 kilometres southeast of Yerevan. The firm Lydian International has carried out work developing the Amulsar Mine, reportedly investing almost U.S.$500 million into the project. Environmentalists have raised concerns that gold mining operations at the Amulsar Mine, which includes use of sulphuric acid, could contaminate water used for drinking and irrigation, potentially damaging agricultural production in the fertile Ararat valley and contaminating Lake Sevan. In summer 2018, local residents assembled roadblocks and checkpoints on the access roads to the Amulsar Mine, which led Lydian International to suspend further development. In March 2019, two Lydian International entities (one based in Canada and one based in the United Kingdom) each filed a notice of claim under relevant bilateral investment treaties in respect of their investments into the Amulsar Mine.

In this context, the Government has commissioned a new independent international environmental study of the Amulsar Mine. That study has now been completed and is under review by the Government. The Government is committed to resolving the situation with Lydian International in accordance with international and Armenian law.

Until the situation at the Amulsar Mine is resolved, some potential foreign investors, especially in the mining sector, may be deterred from making investments. If the Amulsar Mine project does not go ahead due to environmental issues, that too may raise concerns of other potential foreign investors, and Armenia faces the prospect of significant claims being pursued against it by Lydian International.

***Corruption***

Corruption has been identified as a significant, endemic problem in Armenia: in Transparency International's 2018 Corruption Perceptions Index survey of 180 countries, Armenia was ranked 105th. Tackling corruption has been identified as a key area for reform by international organisations advising Armenia, and the Government of Prime Minister Pashinyan has identified fighting corruption as a key pillar of its economic strategy. As such, the Government is reinvigorating efforts to combat corruption, including putting the Corruption Prevention Commission into operation and developing a set of reforms to address corruption. See "*Economy of Armenia—Economic Policy*." These efforts may result in the arrest and prosecution of current and former state officials, such as the 27 August 2019 arrest of Gagik Khachatryan, who was the head from 2008 to 2014 of a committee that oversaw Armenia's tax collection and customs services and then the Minister of Finance from 2014 to 2016. Government corruption can lead to the misallocation and dissipation of state funds/tax revenues or the mismanagement of state projects. Corruption, and allegations of corruption, in Armenia may have a negative impact on Armenia's economy and reputation abroad, especially on its ability to attract foreign investment.

### *Informal Economy*

A significant portion of the Armenian economy, estimated by Armstat to be roughly 22% of the economy, is comprised of an informal, or shadow, economy. The informal economy is only partially taxed, resulting in a lack of revenue for the Government. Likewise, the informal economy is not fully policed and regulated, giving rise to other issues such as health and safety standards. Armstat takes the informal economy into account when it calculates GDP but measuring the output of the informal economy is inherently more difficult than the output of businesses complying with tax, regulatory and reporting requirements. Although the Government is attempting to address the informal economy by streamlining certain regulations, particularly tax laws, there can be no assurance that such reforms will adequately address the issues and bring the informal economy into the formal sector.

### *Earthquakes and Armenia's Ageing Nuclear Power Plant*

Armenia straddles two tectonic plates, a geology conducive to earthquakes occurring from time to time. In December 1988, a powerful earthquake struck in north-western Armenia as a result of which an estimated 25,000 people died and 500,000 were rendered homeless. It is not possible to predict when earthquakes may recur.

Armenia operates the Soviet-built Metsamor Plant, located 36 kilometres outside Yerevan, using a reactor that came into use in 1980, which generates over 40% of Armenia's electricity supply. This reactor was mothballed after the 1988 earthquake, but re-opened in 1995 to help address electricity shortages. In April 2012, it was announced that the plant would remain in operation for the next decade, and in practice the old plant is likely to remain in operation until a new plant can replace its output. The EU has previously requested the earliest possible closure of the Metsamor Plant, taking the view that it cannot be upgraded to meet internationally recognised safety standards. However, in December 2014, it was announced that Rosatom, the Russian state-owned nuclear power company, would undertake a project to extend the operating lifetime of the Metsamor Plant to 2026, and in February 2015 Russia agreed to provide a $270 million loan (and also a $30 million grant to support safety upgrades) to finance this project. In July 2019, Armenian Deputy Prime Minister Tigran Avinyan announced that Armenia was negotiating the construction of a new nuclear plant with Russia to replace the Metsamor Plant after its decommissioning. See "*Economy of Armenia—Energy—Electricity*."

A strong earthquake, or a nuclear disaster, or like events could overwhelm the ability of state authorities to provide emergency care and create conditions in which contagion could spread or civil order could break down. Accordingly, catastrophes, whether natural or man-made, the conditions they create, and the remedial efforts carried out in their aftermath can have a material adverse impact on the Armenian economy.

### *Climate Change and Weather Extremes*

As a country with a mountains ecosystem of which large parts are arid and under-watered, Armenia is potentially especially vulnerable to global warming and climate change, which could have a material impact on Armenia's economy. As discussed in the Third National Communication on Climate Change of 2015 prepared by the Ministry of Environment of Armenia with support of the United Nations Development Programme, the forecast of air temperature and rainfall changes show clear trends of further aridisation for most of the country. Without effective remedial actions the projected rise in average temperatures is expected to eventually result in: heat waves and droughts; a fall in river flows, lake levels and water supply; de-forestation, landslides and mudflows; frequent and intense forest wildfires; and increased flooding. This could be especially harmful to Armenia given its topography and geography, an arid zone with no access to the sea, and taking into account the importance of agriculture to its economy (agriculture is the single largest contributor to GDP). Accordingly, negative implications for the agriculture sector resulting from the climate change may have a significant impact on the Armenian economy and raise social tensions. Weather extremes (such as the spring 2013 and summer 2018 hail storms which destroyed much of the season's crops), the frequency of which may be increasing due to global warming, can cause a sharp rise in food prices, inflation and hardship to the rural poor.

### *Ongoing Emigration*

Since the independence of Armenia in 1991, there has been a consistent pattern of emigration from Armenia. Emigration was especially high during the 1990s as the country suffered protracted hardship (see "*Description of Armenia—History*") but persists to this day, in part due to Armenia's relatively high unemployment and poverty rates (the unemployment rate stood at 16.3% in 2018 while 25.7% of the population was below the poverty line in 2017). Emigration in recent years is estimated to be roughly 20,000-25,000 people per annum. Other Armenians work abroad on a seasonal, migrant basis, in some cases year after year. Many of the emigrants and migrant workers take employment in Russia, sending remittances to their families in Armenia; other emigrants join the global Armenian diaspora. The Government has undertaken various initiatives to encourage the return of emigrants to Armenia, but this has yet to occur in significant numbers. Persistent and ongoing emigration from Armenia, including a "brain drain" of educated citizenry, could materially adversely affect Armenia's economic growth.

**Risk Factors Relating to Investments in the Emerging Markets**

***Higher Volatility, Risks of Downturns and "Contagion" Effect***

Investing in securities involving emerging markets, such as Armenia, involves a higher degree of risk than investments in securities of corporate or sovereign issuers of more developed markets. This higher degree of risk reflects the exposure of emerging economies to higher volatility, limited liquidity, a narrow export base and fiscal and current account deficits while they are also subject to sometimes sudden and unexpected changes in their political, economic, social, legal and regulatory environments. Emerging economies, such as the Armenian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. Emerging markets may also experience more instances of corruption of government officials and misuse of public funds than more mature markets.

In addition, international investors' reactions to events occurring in one emerging market country or region sometimes indicate a "contagion" effect, in which an entire region or class of investment is disfavoured by such investors. If such a contagion effect occurs, Armenia could be adversely affected by negative economic/financial developments in emerging markets generally, in neighbouring countries and/or in countries with similar credit ratings (*e.g*., Belarus, Albania and Moldova). For example, a sustained disruption in the Russian economy may have an adverse impact on Armenia's economy, a linkage that the World Bank and rating agencies have cited. See "*External Sector*." Armenia has also been adversely affected by contagion effects in the past, such as the 2008 global financial crisis, and may be affected by similar effects in the future. See "*—Risk Factors Relating to Armenia—Vulnerability to Global/Regional Economic Conditions and Commodities Markets and to the Russian Economy*."

Accordingly, an investment in Armenia carries risks that are not typically associated with investing in more mature markets. Prospective investors should also note that emerging economies such as Armenia's are subject to rapid change and that the information set out in this Prospectus may soon become outdated. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Investment in emerging markets is only suitable for sophisticated investors who appreciate the significance of the risks involved. Prospective investors are urged to consult with their legal and financial advisers before making an investment decision.

***Developing Legal System***

As is the case in many other emerging market jurisdictions, Armenia's legal framework is young when compared to countries with long-established legal traditions, and still evolving. The recent nature of much of Armenian legislation and the rapid evolution of the Armenian legal system place the quality and the enforceability of laws in doubt and result in ambiguities and inconsistencies in their application.

Armenia's court system is understaffed and has been undergoing significant reforms. Judges and courts in Armenia are generally less experienced in the area of business and corporate law than is the case in many Western jurisdictions. Enforcement of contractual rights as well as court judgments may, in practice, be slow and difficult in Armenia. Improving the judicial system – including addressing corruption, assuring the independence of the judiciary and improving the training of the judges – has been identified as a key area for reform by international organisations advising Armenia and by the Government, which is currently implementing the large-scale Programme for Legal and Judicial Reforms for 2019-2023. Nevertheless, existing inadequacies of the Armenian judicial system may generally deter foreign and domestic investment in Armenia, and materially adversely affect its economic growth.

### *Statistical Information*

As is the case in many other emerging market countries, the accuracy and dependability of Armenian statistical information and the state resources available to collect information may fall short of comparable statistics-gathering in more developed countries, although Armenia has subscribed to the IMF's SDDS since 2003. See "*Presentation of Certain Information.*" Although a number of government ministries, including the Ministry of Finance, the CBA and Armstat produce statistics relating to Armenia and its economy, there can be no assurance that these statistics are as accurate or reliable as those produced by the relevant bodies in more developed countries. Potential investors in the Notes should be aware that the data on Armenia's GDP and other data referred to in this Prospectus may not have been prepared in accordance with international standards and/or to the same degree of accuracy as equivalent statistics produced by the relevant bodies in more developed countries.

In addition, the accuracy of statistical data can vary from one institution to another or from one period to another, due to various factors, including different methodologies having been applied. In this Prospectus, the data is presented as having been provided by the relevant responsible ministry to which it relates, and there has been no attempt to reconcile this data with the data collected by other ministries or other organisations, such as the IMF or World Bank. See "*Presentation of Certain Information*."

The existence of a substantial unofficial or unrecorded economy may also affect the accuracy and reliability of statistical data. Potential investors should also be aware that none of the statistical data presented in this Prospectus has been independently verified.

## Risk Factors Relating to an Investment in the Notes

### *Judgments Relating to Assets in Armenia and Armenian Assets in Other Jurisdictions May Be Difficult to Enforce*

Armenia is a sovereign state. There is a risk that, notwithstanding the limited waiver of sovereign immunity by Armenia in connection with the Notes, a claimant will not be able to enforce a court judgment against certain assets of Armenia (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) without Armenia having specifically consented to such enforcement at the time when the enforcement is sought. See "*Terms and Conditions of the Notes—17. Governing Law, Arbitration and Jurisdiction*." In addition, certain state-owned assets are statutorily exempt from court enforcement procedures within Armenia. Armenia waived its immunity from execution in proceedings before the English courts, however it has not waived any immunity in respect of (a) assets and property of the Issuer located in Armenia; (b) the premises and property of the Issuer's diplomatic and consular missions; (c) assets and property of the Issuer outside Armenia not used or intended to be used for a commercial purpose; (d) assets and property of the CBA or Issuer's monetary authority and the international reserves of the Issuer held by the CBA or the Issuer's monetary authority; (e) assets and property of a military character or under the control of a military authority or defence agency of the Issuer; or (f) assets and property forming part of the cultural heritage of the Issuer.

It may not be possible to effect service of process against Armenia in courts outside Armenia or in a jurisdiction to which Armenia has not explicitly submitted, and the choice of jurisdiction of a foreign court (including English courts) in contractual agreements may be held to be invalid by an Armenian court. In addition, courts in Armenia will enforce a judgment obtained in a foreign court only if such enforcement is provided for by a treaty ratified by Armenia or on the basis of reciprocity (if courts of the country where the foreign judgment is rendered have not previously refused to enforce judgments issued by Armenian courts). Armenian law establishes the presumption of such reciprocity, but this presumption can be rebutted. Armenia has no treaty regarding the enforcement of foreign judgments with the United Kingdom or with the United States. See "*Service of Process and Enforcement of Civil Liabilities*."

### *Armenian Courts May Not Enforce Foreign Arbitral Awards*

Armenia is a party to the NY Convention in accordance with which an award of the ICC should be recognised and enforced by the courts of Armenia and there is precedent of enforcement of international arbitration clauses and recognition and enforcement of foreign arbitral awards. Nevertheless, it may not be possible as a practical matter to enforce foreign arbitral awards against Armenia possibly due to Armenian courts interpreting widely "public policy" as a ground for refusing recognition and enforcement of the award (there being no established court practice in this regard). Furthermore, it may be difficult to enforce arbitral awards in Armenia due to a number of other factors, including the lack of experience of Armenian courts in international commercial transactions, certain procedural ambiguities, resistance in Armenia to the enforcement of awards against Armenia in favour of foreign investors, Armenian courts' inability to enforce such orders and corruption. While these issues should be mitigated by the new Civil Procedure Code of Armenia adopted on 9 February 2019 which regulates in detail the recognition and enforcement of foreign arbitral awards, the process of enforcing any foreign arbitral award in Armenia may be still subject to delay and unpredictability. See "*Service of Process and Enforcement of Civil Liabilities*."

***Armenian Courts May Not Enforce Gross-up Obligations***

Condition 7 of the Terms and Conditions of the Notes requires Armenia to increase the payment of principal or interest made in respect of the Notes in the event any taxes are withheld or deducted, subject to the exceptions therein provided. Although there is no prohibition on contractual compensation for tax withholding under Armenian law, gross-up provisions similar to those under Condition 7 of the Terms and Conditions of the Notes have not been tested in Armenian courts. Consequently, Armenian courts may construe the gross-up provisions of Condition 7 of the Terms and Conditions of the Notes as invalid and, therefore, unenforceable against the Issuer. See "*Taxation—Armenian Taxation*."

***Credit Ratings May Not Reflect All Risks***

Armenia has been assigned foreign currency sovereign credit ratings of Ba3 (Moody's) with stable outlook and B+ (Fitch) with positive outlook. The Notes are expected to be assigned a Ba3 rating by Moody's and B+ rating by Fitch. A credit rating is not a recommendation to buy, sell or hold the Notes, and is subject to revision or withdrawal at any time by the assigning rating agency. Similar ratings on different types of Notes do not necessarily mean the same thing. Ratings do not address the likelihood that the principal on the Notes will be prepaid or paid on an expected final payment date. Ratings also do not address the marketability of the Notes at any market price. The significance of each rating should be analysed independently from any other rating. No assurance can be given that Armenia's current or future sovereign ratings will not be downgraded or withdrawn entirely, if circumstances in the future so warrant in the judgment of the assigning rating agency (including as a result of geopolitical events). Armenia has no obligation to inform Noteholders of any revision, downgrade or withdrawal of its current or future sovereign credit ratings. A suspension, downgrade or withdrawal at any time of a credit rating assigned to Armenia may adversely affect the market price of the Notes.

***The Notes Contain a "Collective Action" Clause Under Which the Terms of the Notes May Be Amended, Modified or Waived Without the Consent of All The Holders of the Notes***

The Notes contain provisions regarding acceleration and voting on amendments, modifications, changes and waivers, which are commonly referred to as "collective action clauses." Under these provisions, certain key provisions of the Notes may be amended, including the maturity date, interest rate and other payment terms, with the consent of Armenia and the specified majority of Noteholders. Each such amendment will be binding on all Noteholders, whether or not they voted in favour of such amendment or at all.

The provisions of the "collective action clause" clause permit "cross-series modifications" to be made to one or more series of debt securities issued by Armenia (provided that those debt securities also contain a cross-series modification provision), including the Notes. In the case of a cross-series modification, a defined majority of the holders of the debt securities of all series (when taken in the aggregate) that would be affected by the proposed modification may bind all holders of such series, provided that a lower defined majority of Noteholders of each affected series of Notes approve the relevant amendment. See "*Terms and Conditions of the Notes—11. Meetings of Noteholders, Written Resolutions*."

Any modification or actions relating to Reserved Matters (as defined in the Terms and Conditions of the Notes), including in respect of payments and other important terms, may be made to the Notes with the consent of the holders of 75 per cent. of the aggregate principal amount outstanding of the Notes, and to multiple series of debt securities issued by the Issuer with the consent of both (i) the holders of 66⅔ per cent. of the aggregate principal amount outstanding of all debt securities being aggregated and (ii) the holders of 50 per cent. in aggregate principal amount outstanding of each series of debt securities being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Terms and Conditions of the Notes), any such modification or action relating to Reserved Matters may be made to multiple debt securities with the consent of 75 per cent. of the aggregate principal amount outstanding of all debt securities being aggregated only, without requiring a particular percentage of the holders in any individual affected debt securities to vote in favour of any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some debt securities only and, for the avoidance of doubt, the provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk, therefore, that the Terms and Conditions of the Notes may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of an amendment, modification or waiver may be holders of different debt securities and as such, less than 75 per cent. of the Noteholders would have voted in favour of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default (as defined in the Terms and Conditions of the Notes) or in a distress situation. Further, any such amendment, modification or waiver in relation to the Notes may adversely affect their trading price.

***The Terms and Conditions Restrict the Ability of an Individual Noteholder to Declare an Event of Default, and Permit a Majority of Noteholders to Rescind a Declaration of Such a Default***

The Terms and Conditions contain a provision which, if an Event of Default occurs, permits the holders of at least 25% in aggregate principal amount of the outstanding Notes, by notice in writing to the Issuer (with a copy to the Fiscal Agent), to declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.

The Terms and Conditions also contain a provision permitting the holders of at least 50 per cent. in aggregate nominal amount of the outstanding Notes to notify the Issuer to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Issuer shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

***The Secondary Market Generally***

The Notes have no established trading market. While application has been made to list the Notes on the Official List, and any one or more of the Joint Lead Managers may make a market in the Notes, they are not obliged to do so and may discontinue any market making, if commenced, at any time without notice. There can be no assurance that a secondary market will develop for the Notes, or, if a secondary market therein does develop, that it will continue or be liquid, which may have a severely adverse effect on the market value of the Notes.

The market for the Notes will be influenced by economic and market conditions in Armenia and, to varying degrees, interest rates, currency exchange rates and inflation rates in other countries, such as the United States, the Member States of the EU and elsewhere. There can be no assurance that events in Armenia, in the region or elsewhere will not cause market volatility or that such volatility will not adversely affect the liquidity or the price of the Notes or that economic and market conditions will not have any other adverse effect. If the Notes are traded after their initial issuance, they may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the political, economic or financial condition of Armenia or other factors. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

***Armenia is not Required to Effect Equal or Rateable Payment(s) with Respect to its Other Debt Obligations, and is not Required to Pay Other Debt Obligations at the Same Time or as a Condition of Paying Sums on the Notes and Vice Versa***

The Notes will at all times rank at least *pari passu* with all other unsubordinated obligations of Armenia. However, Armenia will have no obligation to effect equal or rateable payment(s) at any time with respect to any other unsubordinated obligations of Armenia and, in particular, will have no obligation to pay other unsubordinated obligations of Armenia at the same time or as a condition of paying sums due on the Notes and vice versa. Accordingly, the Issuer may choose to grant preferential treatment to, and therefore prioritise payment obligations to, other unsubordinated creditors of Armenia as payments fall due. For the avoidance of doubt, Armenia does not construe the *pari passu* clause of the Terms and Conditions of the Notes, or any comparable provision in any other debt instrument of Armenia, to require Armenia to pay all items of its Public Debt on a ratable basis.

***Unsecured Obligations***

Upon issue, the Notes will constitute unsecured obligations of Armenia.

***Legal Investment Considerations***

The investment activities of certain investors are subject to legal investment laws and regulation, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

***Investors Who Hold Less Than the Minimum Specified Denomination May Be Unable to Sell Their Notes and May be Adversely Affected if Definitive Note Certificates are Subsequently Issued***

The Terms and Conditions do not permit the sale or transfer of Notes in such circumstances as would result in amounts being held by a Noteholder which are lower than the minimum Specified Denomination (as defined in the Terms and Conditions). However, in the event that a Noteholder holds a principal amount of less than the minimum Specified Denomination, such Noteholder would need to purchase an additional amount of Notes such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Notes. Noteholders should be aware that Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

If a Noteholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time, such Noteholder may not receive a Definitive Note Certificate in respect of such holding (should Definitive Note Certificates be issued) and would need to purchase a principal amount of Notes such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a Definitive Note Certificate.

If Definitive Note Certificates are issued, Noteholders should be aware that Definitive Note Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

***Holders of Notes Held Through DTC, Euroclear and Clearstream, Luxembourg Must Rely on Procedures of Those Clearing Systems to Effect Transfers of Notes, Receive Payments in Respect of Notes and Vote at Meetings of Noteholders***

Notes will be represented on issue by the Global Notes that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or with a custodian for DTC. Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note. Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

## USE AND ESTIMATED NET AMOUNT OF PROCEEDS

The estimated net proceeds of the issue of the Notes, after deduction of commissions, will be U.S.$489,505,000. In addition, estimated expenses in connection with the issue of the Notes and the Issuer's Tender Offer (as defined herein) in the amount of U.S.$475,000 will be paid out of the State Budget. U.S.$427,867,748.75 of the estimated net proceeds will be used to pay the purchase price and accrued interest for the notes the Issuer purchases pursuant to the Issuer's invitation to holders of the 2013 Eurobonds launched on 10 September 2019 to tender for purchase for cash any and all of the outstanding 2013 Eurobonds, subject to certain restrictions, and upon the terms and subject to the conditions set forth in a tender offer memorandum dated 10 September 2019, as may be amended or supplemented from time to time (the "**Tender Offer**"). The Tender Offer is expected to settle on or around 27 September 2019. The remaining estimated net proceeds will be used for the repayment of the remaining outstanding 2013 Eurobonds when they mature in September 2020. Any further net proceeds will be applied to general governmental purposes.

## DESCRIPTION OF ARMENIA

### History

An ancient nation, Armenia regained independence in 1991 when the Republic of Armenia was proclaimed.

Organised settlement existed in Armenia by the 14$^{th}$ century BC; references to an Armenian people first occur in the sixth century BC. In antiquity and medieval times, Armenia existed on the edges of Western empires (Greek, Roman, Byzantine) and Eastern empires (Assyrian, Persian, Parthian, Arab). In practice, Armenia often had significant self-rule; the hereditary chiefs of Armenian clans (the *nakharars*) exercised local power in an often fractious relationship with their king. In the first century BC, King Tigran the Great established a short-lived Armenian empire stretching from the Mediterranean to the Caspian. A golden age of Armenian culture flourished in the 10$^{th}$ century under the Bagratid dynasty, with its court in Ani.

A pivotal and defining moment in Armenian history was the nation's conversion to Christianity in AD 301 when King Tiridates III was baptised; thus Armenia became the first state to adopt Christianity as its religion. The Armenian Apostolic Church, headed by its patriarch, the Catholicos, remains an important national institution to this day. The medieval stone churches that dot the Armenian countryside are a source of great national pride. Of like importance was the invention, attributed to Saint Mesrop Mashtots, of the Armenian alphabet in AD 404 to reduce the Armenian language to writing. Through the following centuries when they had no nation state, the religion and the alphabet of the Armenian people were essential to preserving their national identity.

Weakened following its incorporation into the Byzantine Empire in 1045, Armenia was overrun by the Seljuk Turks in 1064, when Ani was sacked (Ani is now an abandoned town located in the Turkish province of Kars). The Mongol invasions followed, an especially bleak period of Armenian history. Presaging future migrations, a group of Armenians moved to the southwest, and Armenian princes established in 1080 the kingdom of Cilicia (sometimes referred to as 'Lesser Armenia') along the northeastern Mediterranean coast, which continued to 1375; other Armenians moved along the Black Sea littoral and into Ukraine, Poland and Russia.

From the 16$^{th}$ century, the main Armenian population was split between those living to the west (in the vicinity of Kars, Erzerum and Van) under Ottoman rule (with some authority delegated to the Armenian Patriarch of Constantinople) and those living to the east (in the vicinity of Yerevan, Gyumri and Nagorno-Karabakh) initially under Persian rule and then, following the 1826-1828 Russo-Persian war and other military campaigns, under imperial Russian rule. During the course of the 19$^{th}$ century, in keeping with wider European trends, a national consciousness developed.

World War I and the 1917 Bolshevik Revolution unleashed forces that largely define modern Armenian history. In the midst of World War I, the Ottoman authorities organised a genocide of the Armenian people starting in 1915, achieved in large part by forced deportations and marches of the populations of entire villages and towns, and directly by massacres. Up to 1,500,000 people are estimated to have died in the genocide, one-third of the Armenian nation. The Turkish government staunchly denies a genocide was carried out, attributing the deaths to the mayhem of civil war and famine. There was mass starvation in Armenia in 1919. The genocide also resulted in massive emigration. The plight of the Armenian people garnered worldwide attention.

Russia fell into civil war, and as Turkish armies were making advances, in May 1918, the first republic of Armenia was proclaimed, a democratic parliamentarian republic based on western models. The first republic faced multiple existential challenges: territorial disputes with the newly-independent states of Georgia and Azerbaijan; assertions of power by Bolshevik authority; invasion by Turkish armies; the ongoing genocide; an influx of refugees; epidemics of typhus and cholera; and severe food shortages. Brief wars ensued with Georgia and with Azerbaijan (over control of Nagorno-Karabakh). While President Wilson as part of the post-war diplomatic settlement imagined Armenia regaining its western territories and access to the Black Sea, the new Turkish government attacked Armenia in September 1920, resulting in a treaty that ceded to Turkey what had been Armenian-populated, Russian-ruled territories (including the national symbol of Armenia, Mount Ararat), which effectively settled Armenia's modern border with Turkey. On 2 December 1920, as the Red Army entered Yerevan, the pro-Bolshevik socialist republic of Armenia was declared. In March 1922, the Transcaucasian Soviet Federated Socialist Republic (encompassing Armenia, Azerbaijan and Georgia) was declared; in 1936, it was divided into its constituent nations and the Soviet Socialist Republic of Armenia established (the smallest, by land area, of the 15 Soviet republics).

Seven decades of Soviet rule in some ways benefited Armenia: after the devastation of genocide and the 1918-

1920 sequence of wars, it provided a degree of security and assurance of national survival. The economy was significantly industrialised and the population significantly urbanised. Major transportation and energy infrastructure projects were carried out. Education and healthcare improved.

In December 1988, a devastating and powerful earthquake struck northwestern Armenia, around the city of Leninakan (now Gyumri), as a result of which an estimated 25,000 people died, over 200,000 were rendered homeless, and much of Leninakan and nearby towns were damaged or destroyed. A global relief effort was launched in response. Armenia's Metsamor Plant (located outside Yerevan, and which was not affected by the earthquake) was closed down as a precautionary measure.

The political reforms introduced by Soviet leader Mikhail Gorbachev in the late 1980s allowed long suppressed nationalist aspirations to emerge. This led to violent confrontations as local populations pressed for independence against a faltering central Soviet authority. In the South Caucasus, this was brought out by the shooting of Georgian pro-independence protesters in April 1989 in Tbilisi by Soviet troops. For Armenia, its move towards independence became inextricably tied to the status of Nagorno-Karabakh, a traditional Armenian-majority region to the east of Armenia proper.

When the Soviet Socialist Republic of Armenia was founded, Armenian authorities sought to have Nagorno-Karabakh included within its borders. The clear majority of the Nagorno-Karabakh population supported unification with Armenia. The central Soviet authorities did not incorporate Nagorno-Karabakh within Armenia's borders but instead, in 1923, created the Nagorno-Karabakh Autonomous Oblast, a separate administrative unit within the borders of the Soviet Socialist Republic of Azerbaijan.

This approach proved workable so long as the security and supervision provided by central Soviet authority was assured (although various petitions were made in post-Stalinist times to return Nagorno-Karabakh to Armenia). But as the various Soviet republics moved towards independence in the late 1980s and early 1990s, the prospect of direct rule over Nagorno-Karabakh by a newly-independent Azerbaijan led the Armenian population of Nagorno-Karabakh and Armenia itself to demand sovereignty for Nagorno-Karabakh. Assertions of independence by Nagorno-Karabakh met counter-assertions of its subservience by Azerbaijan. The dispute over Nagorno-Karabakh exacerbated growing Armenian-Azeri ethnic tensions in both countries, which eventually led to almost all the ethnic Armenian population leaving Azerbaijan and almost all the ethnic Azeri population leaving Armenia. The conflict escalated and full-scale hostilities broke out in 1991-1992 with Armenia supporting the Nagorno-Karabakh population. There were thousands of casualties. In December 1991, in a plebiscite carried out in accordance with then-applicable Soviet law, as well as public international law, the population of Nagorno-Karabakh voted in favour of the establishment of the Nagorno-Karabakh Republic. In May 1994, a Russian-brokered ceasefire signed by representatives of Azerbaijan, Armenia and the self-proclaimed Nagorno-Karabakh Republic ended large-scale warfare and established truce lines that endure to this day. The truce lines encompass significant territory inside Azerbaijan beyond the borders of the self-proclaimed Nagorno-Karabakh Republic. Skirmishes occur from time to time along the line of contact; from 2 April to 5 April 2016, heavy fighting broke out with estimated casualties of at least 100 soldiers from both sides, as well as significant civilian casualties. See "*Risk Factors—Risk Factors Relating to Armenia—Regional Tensions – Nagorno-Karabakh and Relations with Azerbaijan*."

The Nagorno-Karabakh conflict spurred demands for independence in Armenia itself, at a time when Soviet central authority was waning. In August 1990, the legislature asserted the sovereignty of Armenia. The failed August 1991 putsch against Gorbachev further weakened central authority. On 21 September 1991, the independent Republic of Armenia was proclaimed. The USSR itself was dissolved on 26 December 1991. On 2 March 1992, Armenia took membership in the United Nations.

Upon its independence, Armenia's immediate future was daunting. Armenia was still coping with the consequences of the 1988 earthquake. The dissolution of the Soviet Union severely disrupted the economies of all the former Soviet Union states. The conflict in Nagorno-Karabakh strained national resources. Azerbaijan stopped its supply of natural gas to Armenia, which led to energy shortages with frequent blackouts and lack of heat in winter. The economy was racked by high inflation, high unemployment, low investment and declining GDP. There was large-scale emigration from Armenia while at the same time a large influx of refugees from Azerbaijan. It was estimated that 85% of the population lived at or below the poverty line. The situation stabilised during the course of the 1990s when the Nagorno-Karabakh truce was brokered in May 1994, the Metsamor Plant (a vital source of electricity) re-opened in 1995, and Russia, Armenia's key economic, energy and security partner, recovered.

Levon Ter-Petrosyan was elected as the first President of the new Republic of Armenia in polling held in October 1991. Ter-Petrosyan had been a leader of the Nagorno-Karabakh independence movement. Controversially, in December 1994, Ter-Petrosyan outlawed one of the main opposition parties, the Armenian Revolutionary Federation (also known as the Dashnaktsutyun), which traced its roots to the late 19th century independence movement and whose candidate had taken a reported 4.3% of the popular vote in the first presidential election. The 1995 Constitution established broad powers for the President. Ter-Petrosyan was re-elected in September 1996. Ter-Petrosyan's pursuit of peace talks to resolve the Nagorno-Karabakh conflict – in which it was considered that Nagorno-Karabakh forces might withdraw to its borders, the blockades of Azerbaijan and Turkey might end, but the ultimate status of the Nagorno-Karabakh deferred for later resolution – attracted large-scale opposition both within Armenia and from the Armenian diaspora. Ter-Petrosyan resigned from the presidency in February 1998.

Upon Ter-Petrosyan's resignation, the Prime Minister, Robert Kocharian, assumed the presidency, pending the holding of an extraordinary presidential election. Kocharian then ran in, and won, the elections held in March 1998, defeating Karen Demirchyan. Kocharian had earlier served as President of the self-proclaimed Nagorno-Karabakh Republic, and was an independent candidate in the 1998 presidential elections. Parliamentary elections in May 1999 resulted in a legislature led by the Unity block (an alliance between Demirchyan's newly-formed People's Party and Vazgen Sargsyan's Republican Party of Armenia), with Vazgen Sargsyan serving as Prime Minister and Demirchyan as Parliamentary President. In October 1999, Vazgen Sargsyan, Demirchyan and five others were assassinated in a terrorist attack on the National Assembly. Kocharian was elected to a second five-year term in March 2003.

In November 2005, a nationwide constitutional referendum was held, and an amended constitution was adopted. Under (the now superseded) November 2005 Constitution, the President of Armenia appointed the Prime Minister and further the members of the cabinet upon the recommendation of the Prime Minister. The President was allocated primary responsibility for international relations and security, while the Prime Minister was allocated primary responsibility for domestic affairs. The November 2005 Constitution established a term limit on the office of the President of two consecutive terms.

In February 2008, Serzh Sargsyan, the leader of the Republican Party of Armenia, won the presidential election in which his main opponent was former President Ter-Petrosyan. Prior to Serzh Sargsyan's election, he had served as Prime Minister and Minister of Defence during the Kocharian administration and led the Nagorno-Karabakh Self-Defence Forces Committee. In the worst post-election violence during Armenia's independence, 10 people died in violent protests in Yerevan, resulting in a declaration of a 20-day state of emergency. President Sargsyan was re-elected to a second, five-year term in February 2013.

In December 2015, a nationwide constitutional referendum approved amendments to the Constitution transforming Armenia to a parliamentary republic. Under the December 2015 Constitution, the executive powers are primarily vested in the Prime Minister, who is elected by the parliamentary majority and formally appointed by the President. The President is elected by the National Assembly rather than by popular vote and performs a largely ceremonial role.

In April 2017, elections for the National Assembly returned a majority for the Republican Party, led by President Serzh Sargsyan. Under the new Constitution, on 2 March 2018, the National Assembly elected Armen Sarkissian as President of Armenia, and on 17 April 2018, elected Serzh Sargsyan as Prime Minister of Armenia. The latter provoked massive public protests across the country, which led to the resignation of Mr. Sargsyan on 23 April 2018. On 8 May 2018, the National Assembly elected Nikol Pashinyan, the leader of "Yelq" (Exit) parliamentary bloc, as Prime Minister of Armenia. In October 2018, Mr. Pashinyan resigned to trigger snap parliamentary elections, which were held on 9 December 2018. In that elections the majority of the seats in the National Assembly was won by the "My Step" Alliance, led by Mr. Pashinyan (the former ruling party, the Republican Party of Armenia, did not pass the 5% vote threshold to take seats in the new parliament). On 14 January 2019, Mr. Pashinyan was sworn in as Prime Minister.

Historically the conduct of elections in Armenia has not been qualified by international observers as fully fair and free. In respect of the 2018 snap parliamentary elections, however, the OSCE expressed the view that "the elections were held with respect for fundamental freedoms and enjoyed broad public trust." See "*Risk Factors—Risk Factors Relating to Armenia—Political Risk Associated with a Transitional Democracy*."

On 14 February 2019, the National Assembly adopted a new five-year 2019 Government Programme, which aims to boost economic growth through structural reforms, export promotion and attraction of foreign investment. Improving the business environment, ensuring fair competition and eliminating corruption are among the goals listed in the 2019 Government Programme.

### Location and Population

Armenia is a landlocked country with an area of 29,800 square kilometres in the South Caucasus. The Great Caucasus mountain range runs to the north of Armenia while the Minor Caucasus run across the northeast of the country, and roughly 80% of its terrain is mountainous. Armenia is ringed to the west by Turkey, to the north by Georgia, to the east by Azerbaijan, to the south by Iran, and to the southwest by the Nakhchivan province of Azerbaijan (which is a non-contiguous exclave of Azerbaijan). Armenia has a number of fast-flowing but non-navigable rivers, a source of some hydropower. The Arax River largely defines its border with Turkey and Iran. Agricultural production is possible in the plains and valleys of the country, especially in the Ararat plain to the southwest of Yerevan, the volcanic highlands around Gyumri and along Lake Sevan, and roughly 20% of its land is arable. Given sparse rainfall, agriculture generally requires irrigation. Over the centuries, Armenia has lost most of its forests and the country has a predominantly arid and rocky landscape. Armenia's natural resources include hydropower, copper, bauxite, molybdenum, gold, zinc and iron ore.

Politically, Armenia is organised into 10 regions and 502 communities, including Yerevan, the capital city.

According to Armstat, Armenia had a total population of approximately 3.0 million as of 1 January 2019, with the following breakdown by age and gender (such breakdowns current as of 1 January 2019):

**Armenia's Population**

| *Age* | *Percentage of Population* | *Male* | *Female* | *Total Population* |
|---|---|---|---|---|
| 0-14 | 20.2 | 318,898 | 281,197 | 600,095 |
| 15-64 | 67.9 | 943,819 | 1,068,230 | 2,012,049 |
| 65 and over | 11.9 | 139,014 | 214,111 | 353,125 |
| **Total** | **100.0** | **1,401,731** | **1,563,538** | **2,965,269** |

*Source*: Armstat.

Most of the population lives in the western and north-western parts of the country; the two principal cities are the capital Yerevan with a population of approximately 1.1 million people and Gyumri (in Soviet times called Leninakan, and in Tsarist times Aleksandropol) with a population of approximately 114,500 people.

Based on the results of the 2011 census, approximately 98.1% of the population are ethnic Armenians. Other ethnic groups include Yezidis, Russians, Assyrians and Kurds. The official language of Armenia is Armenian, using the Armenian alphabet. A vast majority of the population speaks Armenian, while Russian is often a second language. The literacy rate for the population over the age of 15 is 99.7%. The predominant religion in Armenia is the Armenian Apostolic Church. Other religious communities in Armenia include Orthodox Christians and Catholics.

### The Constitution and the President

The Constitution of Armenia was adopted on 5 July 1995 and amended in 2005 and further in 2015. The 2015 amendments to the Constitution transformed Armenia to a parliamentary republic with the executive powers being largely vested in the Prime Minister.

Under the Constitution, the President of Armenia is the head of state, although his powers are largely ceremonial. The President is elected by the National Assembly for a single, seven-year term of office. Following his election as President in March 2018, Armen Sarkissian's term is scheduled to end in 2025.

The Constitution authorises the President to:

- upon the recommendation of the Government, conclude international treaties, and approve, suspend or revoke international treaties not requiring ratification;

- upon recommendation of the Prime Minister, confer the highest diplomatic ranks, and appoint and recall diplomatic representatives to foreign states and international organisations;

- appoint the candidate elected by the parliamentary majority as Prime Minister;

- appoint Deputy Prime Ministers and ministers proposed by the Prime Minister or, in case the President disagrees with the proposal of the Prime Minister, apply to the Constitutional Court for resolution; upon recommendation of the Prime Minister make changes in the composition of the Government;

- in cases prescribed by the Constitution, accept the resignation of the Government;

- appoint the judges and the chairpersons of the courts of first instance and courts of appeal upon recommendation of the Supreme Judicial Council;

- appoint the judges of the Court of Cassation upon recommendation of the National Assembly and the chairpersons of the chambers of the Court of Cassation upon recommendation of the Supreme Judicial Council;

- in cases prescribed by the Constitution the President may return the relevant act with his or her objections to the authority submitting the proposal or filing a motion, and in case this objection is not accepted by the competent authority shall either sign the relevant act or refer the matter to the Constitutional Court;

- sign and promulgate the laws passed by the National Assembly, or apply to the Constitutional Court for it to assess the compliance of the law with the Constitution; and

- issue decrees and orders within the President's authority.

**The Government**

Currently, the Government comprises the Prime Minister, two Deputy Prime Ministers and 12 ministers (there was a significant change in the structure of the ministries in 2019 – the previously existing 17 ministries were consolidated into 12). Under the 2015 Constitution, the Government is empowered to develop and implement the domestic and foreign policy of Armenia, as well as exercise overall management of the bodies of the state administration.

Sittings of the Government are convened and chaired by the Prime Minister, who is vested with broad executive powers. The Prime Minister manages the activities of the Government, coordinates the work of ministers and signs decisions of the Government. The Prime Minister also determines the main directions of policy of the Government, heads the Security Council and at the time of war acts as the Commander-in-Chief of the armed forces.

The Government's powers and responsibilities include:

- declaring a state of emergency, and declaring martial law and calling for a general or partial mobilisation of the armed forces;

- submitting the draft State Budget to the National Assembly for approval, ensuring execution of the budget and submitting financial reports to the National Assembly;

- managing state property; and

- implementing the unified state policies on finances, the economy, taxation, loans and credits, and state development policy.

All matters of state administration, which are not reserved by law to other state or local self-government bodies, fall within the competence of the Government.

**The National Assembly**

Legislative power in Armenia is vested in the National Assembly, a unicameral body consisting of 132 Deputies elected for a term of five years. In the most recent, December 2018, legislative elections, the "My Step" Alliance, a bloc led by the Prime Minister Nikol Pashinyan, received 70.4% of the vote, yielding 88 seats in the National Assembly, the "Prosperous Armenia" Party led by businessman Gagik Tsarukian received 8.3% yielding 26 seats and the Bright Armenia Party took 6.4% of the votes, yielding 18 seats. None of the eight other political parties participating in the election cleared the 5% vote threshold to enter the National Assembly.

Standing Committees of the National Assembly conduct preliminary discussions of draft legislative acts and other issues and provide the National Assembly with opinions thereon. The Chairman of the National Assembly (elected by a majority vote of its Deputies) chairs National Assembly sittings, manages its resources and ensures its normal functioning. The procedure for the operation of the National Assembly, as well as the formation and activities of its bodies, is defined by the Constitution and the Rules of Procedure of the National Assembly.

Under the Constitution, the National Assembly has power to:

- elect the President and the Prime Minister;
- adopt a declaration of no-confidence in the Prime Minister upon which he is considered to have submitted his resignation;
- apply to the Constitutional Court to remove the President and, upon a positive opinion of the Constitutional Court, remove the President by a 2/3 vote;
- adopt the State Budget upon its submission by the Government, and oversee its implementation, along with that of loans and credits received from foreign governments and international organisations;
- lift martial law (imposed by the Government) or cancel the implementation of measures provided for under the legal regime of martial law;
- elect nine judges of the Constitutional Court, of which three judges shall be elected upon recommendation of the President, three judges upon recommendation of the Government, and three judges upon recommendation of the General Assembly of Judges;
- elect the Chairman of the CBA upon recommendation of the competent standing committee of the National Assembly, and remove the Chairman of the CBA in cases prescribed by the Constitution;
- upon the recommendation of the Government, ratify, suspend or terminate the international treaties of Armenia; and
- upon the recommendation of the Government, declare war (unless a sitting of the National Assembly cannot be convened, in which case the Government may declare war).

**Judicial System**

The courts in Armenia consist of: (i) the courts of first instance of general jurisdiction; (ii) the courts of appeal; (iii) the Court of Cassation, the highest appellate court in Armenia, except for matters of constitutional justice, which are heard by (iv) the Constitutional Court. There is also a specialised Administrative Court and specialised bankruptcy courts.

Constitutional justice in Armenia is administered by the Constitutional Court, comprised of nine judges elected by the National Assembly for a term of 12 years. The role of the Constitutional Court is to:

- determine the compliance of laws, decisions of the National Assembly, decrees of the President, and decisions of the Government, Prime Minister, and regulatory bodies with the Constitution;
- prior to ratification of an international treaty, determine the compliance of commitments stipulated therein with the Constitution;

- resolve all disputes arising from the results of referenda, and all disputes concerning the outcomes of elections of Deputies;

- confirm the existence of grounds for impeaching the President;

- determine the incapacity of the President to discharge his or her responsibilities; and

- settle disputes arising between constitutional bodies with respect to the constitutional powers thereof.

The Supreme Judicial Council, a separate body, is composed of 10 members. Five members are elected from among judges by the General Assembly of Judges and the other five members are elected from among academic lawyers and other prominent lawyers by the National Assembly. Members elected by the National Assembly could not be judges. The role of the Supreme Judicial Council is to:

- prepare the list of candidates for judges, chairpersons of courts and chairpersons of chambers of the Court of Cassation, as well as official promotion lists of judges, on the basis of which appointments are made, and submit them to the President for approval;

- impose disciplinary action on judges, terminate the power of a judge, decide on giving consent for initiating criminal prosecution against a judge or restrict the judge from exercising his/her powers;

- propose to the National Assembly the candidates for judges and the chairperson of the Court of Cassation; and

- approve the estimate of the courts' expenditures, and submit such expenditure to the Government for further inclusion into the Draft State Budget.

The Government is developing reforms (which would take the form of 'constitutional acts,' which require a super-majority (three-fifths) passage by the National Assembly – but are not considered amendments to the Constitution) to improve the appointment process and ensure the independence of the judiciary. The establishment of a specialised court empowered to administer cases involving corruption is also under active consideration.

**Local Self-Government**

Armenia is composed of 10 regions and 502 communities, of which 49 are classified as urban and 453 as rural. The Government appoints the regional governors. In the communities, local self-government is exercised to resolve local issues for the welfare of its population in accordance with the Constitution and law. These communities generate their own budgets, which are primarily funded by their taking a share of taxes (*e.g.*, property taxes and taxes on cars) collected by the national authorities, as well as by state subsidies (intended to address regional economic disparities), local taxes, duties and fees for services. See "*Public Finance—Fiscal Relations with Local Governments*."

The bodies carrying out local self-government are the Council of Aldermen and the Head of Community (in a city, the mayor) who are elected for five-year terms. The Mayor of Yerevan is elected by the Community Council of Yerevan (whose members are themselves popularly elected). If a political party participating in the Yerevan municipal elections wins more than 50% of the Community Council's seats, the first person on such party's list of candidates shall be the Mayor of Yerevan by operation of law. The Government may remove the Head of Community from office on the opinion of the Constitutional Court, in cases specified by law.

**Armed Forces**

The Armenian Armed Forces consist of the land forces (the "**Land Forces**") and the air aviation and air defence forces. The personnel of the Armenian Armed Forces was 43,291 in 2018, including 6,888 officers, 2,704 non-commissioned officers and warrant officers, 10,774 contract soldiers and 19,032 conscripts, supported by 3,893 civilians (of which 323 are special civil service personnel).

The Land Forces are composed of five corps headquarters, which exercise command and control over 16 regiments (13 motorized rifle and three rifle) 16 battalions (three armoured, three reconnaissance, two artillery, two signal, one maintenance, one engineer, one nuclear-biological-chemical defence, one military police, one training signal, one training air defence ("**AD**")) and two fortified areas (status of infantry regiments). The Land Forces also include six independent brigades (one peacekeeping forces, two artillery, one AD, one training motorized infantry, one special forces), 11 combat support and combat service support regiments (anti-tank, AD rocket-artillery, AD rocket, combat engineer, logistics, signal, two radio-technical, electronic warfare, guarding, artillery training), three maintenance bases, one armoured equipment technical maintenance base and one communication equipment maintenance base, one evacuation and transportation base, five military hospitals and one polyclinic.

The aviation units include two aviation bases, one maintenance factory, one independent training and transportation squadron and one flights control centre. Air defence forces are composed of one air defence missile brigade, one air defence missile regiment, one radio-technical (air surveillance) regiment, one air defence missile artillery regiment and the Air and Air Defence 228$^{th}$ Joint Command responsible for the management of Armenian airspace which provides a common zone to Armenian and Russian air defence units.

The defence budget for 2019 is approximately AMD309 billion (18.7% of the 2019 State Budget). See "*Public Finance—2019 State Budget*."

The National Security Strategy of the Republic of Armenia (the "**National Security Strategy**") outlines the nation's fundamental values, the factors and activities that provide security and identifies the threats to the nation's security. It highlights the necessity for an effective state governance system, for the rule of law and inculcation of democratic values, for an independent and impartial judiciary, for combat readiness of the armed forces and purposeful activities of security and law-enforcement structures, for foreign policy, for ensuring fully-fledged international engagement and guaranteed social justice.

The Military Doctrine of the Republic of Armenia, being defensive in nature, further elaborates in detail the relevant provisions of the National Security Strategy that pertain to the defence and military sector, and establishes priorities of the Defence Policy of the Republic of Armenia (the "**Defence Policy**"). The Defence Policy, reviewed every five years through a strategic defence review, is conducted based on an analysis of the regional and international political-military situation, strategic forecasts, requirements of the military security system and the capabilities of the economy, current threats and challenges, and the nature of probable future armed conflicts, as well as the international commitments of Armenia.

Armenia's current Defence Policy aims to develop security guarantees, promote peace and stability in the region, and create necessary political and military preconditions for the peaceful resolution of the Nagorno-Karabakh (Artsakh) conflict. The Defence Policy is also aimed at enhancing Armenia's strengthened capabilities to implement international commitments for participation in international peacekeeping and peace support operations. Armenian Defence Policy is based on a multi-layered system of cooperation, including strategic alliance with the Russian Federation, membership in the Collective Security Treaty Organisation (the "**CSTO**"), Armenia-NATO partnership in security and defence sectors through NATO programmes (Individual Partnership Action Plan ("**IPAP**") and Partnership Planning and Review Process), Armenia-EU cooperation in the area of common security and defence policy, cooperation in the framework of the OSCE, bilateral cooperation with NATO, EU and CIS member and other states as well as engagement in international arms control and disarmament treaties.

**International Relations**

Armenia has established bilateral and diplomatic relations with 167 countries and has 42 diplomatic missions and eight general consulates abroad. Armenia hosts 62 diplomatic and consular missions, including 31 embassies and 27 offices of intergovernmental organisations and international financial institutions. Armenia is a member of a number of international and regional organisations, including the UN, the IMF, the World Bank, the Council of Europe, the EBRD, the World Trade Organisation (the "**WTO**"), the CIS, the EEU, the CSTO and the OSCE. Armenia has been consistently pursuing a foreign policy of multiple engagements and compatibility of interests in order to maximise its security and development potential. See "*External Sector—International Trade Agreements*" for a discussion of Armenia's international trade relations and WTO membership.

***European Union***

The cooperation with the EU is one of the foreign policy priorities for the Republic of Armenia which is reflected in the 2019 Government Programme. Since independence, cooperation with the EU has greatly contributed to economic, judicial and public administration reforms, to the establishment of its democratic society and to re-enforcing the respect of human rights and fundamental freedoms in Armenia. Armenia-EU relations entered a new phase in 2017 when the Comprehensive and Enhanced Partnership Agreement (the "**CEPA**") was signed. The provisional application of the CEPA started in 2018. The CEPA sets as goals for Armenia the strengthening of democracy and human rights, improving employment and business opportunities, promoting fairer rules, enhancing safety and security, cleaning the environment, and bettering education, as well as a peaceful solution of the Nagorno-Karabakh conflict. Armenia is also an active member of the Eastern Partnership, which is viewed as a value-based platform for developing bilateral relations with the EU and its member states, as well as furthering the democratic reforms in Armenia. The EU is the second largest trade partner of Armenia. See "*External Sector—International Trade Agreements*" and "*Public Debt and Related Matters—Multilateral and Bilateral Development Organisations*" for further discussion of Armenia's trade relations with the EU.

***CIS***

On 21 December 1991, Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan signed the Alma-Ata Protocol and established the CIS. Georgia joined the CIS in 1993, then withdrew in 2009; Turkmenistan withdrew and became an associate member in 2005; Ukraine undertook certain steps to leave the CIS in 2014-2018, but has not ceased its membership officially. The goals of the CIS are to realise political, economic, environmental, humanitarian and cultural cooperation and assist in the free interaction, contact and movement of citizens within the CIS. Armenia is an active participant in the development and implementation of cooperation programmes within the CIS.

***EEU***

The EEU is an international organisation for regional economic integration of its members: Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia (Moldova has an observer status), which Armenia joined in January 2015. The EEU provides for free movement of goods, services, capital and labour amongst its member states so as to form a single economic space. The EEU's stated goal is to comprehensively upgrade, raise the competitiveness of and cooperation between the national economies, and to promote stable development in order to raise the living standards of the nations of its member states. Among the benefits to Armenia of its membership in the EEU has been better pricing for its import of natural gas supply from Russia and an upturn in exports to Russia, increasing over 2.7x (in U.S.$ terms) from 2015 to 2018. See "*Economy of Armenia—Energy—Petroleum Products and Natural Gas*" and "*External Sector—International Trade*."

***CSTO***

The CSTO is an international regional organisation founded by Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. The CSTO goals are to support international and regional security and to collectively protect the independence, territorial integrity and the sovereignty of each of its members through the coordination of military and political efforts. Additionally, the members of the CSTO have undertaken not to participate in any military union, group of nations or take actions that are directed against any other member of the CSTO (which has been viewed as ruling out NATO membership for any member of the CSTO). The member states of CSTO have conducted joint military exercises in the past, one of the largest of which was hosted by Armenia in 2008. Armenia remains an active member in the CSTO.

***NATO***

Armenia-NATO partnership relations date back to 1992 when Armenia joined the North Atlantic Cooperation Council. Starting from 2006 the IPAP lays out the programme of cooperation between Armenia and NATO in defense and security sector reforms, counter-terrorism, disaster response, fight against corruption, *etc*. Currently Armenia continues to contribute peacekeeping troops to the Kosovo Force mission and to Resolute Support Mission in Afghanistan. While Armenia intends to intensify practical and political cooperation with NATO, it does not seek membership in NATO.

## Bilateral Relations

### *Georgia*

Since independence Armenia has prioritised maintaining friendly relations and deepening political and economic cooperation with Georgia, drawing on the shared history and culture of the two countries. To this end, high level meetings between the heads of the two states, as well as various branches of the two governments, are regularly held. Prospects for the further development of multidimensional cooperation are discussed at sessions of the Intergovernmental Commission on Economic Cooperation between Armenia and Georgia (the most recent of which was conducted on 26-27 June 2019). Currently the bilateral agenda of the two countries envisions many areas of cooperation, including energy, transport, trade, tourism, education and culture, with a particular emphasis on developing projects to improve infrastructure links between the two countries.

### *Azerbaijan*

Azerbaijan and Armenia have no formal relations and are engaged in peace talks over the Nagorno-Karabakh conflict, mediated by France, Russia and the United States in the framework of the OSCE Minsk Group Co-chairmanship. Armenia supported the Nagorno-Karabakh forces in full-scale hostilities in 1991-1994 with Azerbaijan until the May 1994 ceasefire, signed between Azerbaijan, the de facto authorities of Nagorno-Karabakh and Armenia. The agreed truce line has effectively left a swath of southwestern Azerbaijan under control of Nagorno-Karabakh forces. Skirmishes break out from time to time along the truce line. Significant outlays in military expenditure by Azerbaijan, fuelled by its oil and gas revenues, are a source of concern. Armenian citizens are prohibited entry into Azerbaijan. Armenia fully supports the basic principles for the settlement of the conflict as proposed by the mediators.

Various incidents can heighten tensions in relations as in the summer of 2014 when an outbreak of fighting along the ceasefire line led to the deaths of over 20 soldiers, in November 2014 when Azeri forces shot down an Armenian-manned military helicopter, and in April 2016 when heavy fighting broke out over four days along the contact line at two positions where Azeri forces were attempting to make advances, resulting in casualties of at least 100 soldiers from both sides, as well as significant civilian casualties, the worst escalation in violence over Nagorno-Karabakh since the 1994 cease-fire agreement. See "*Risk Factors—Risk Factors Relating to Armenia—Regional Tensions – Nagorno-Karabakh and Relations with Azerbaijan*."

### *Turkey*

In 1991, when Armenia declared its independence, Turkey was among the first countries to recognize Armenia. Ankara, however, refused to establish diplomatic relations with Yerevan. In 1993, as a solidarity gesture with Azerbaijan in the Nagorno-Karabakh war, Turkey unilaterally closed its air and land borders with Armenia. The airspace was opened in 1995 under the pressure of international society.

Efforts to open the land border and establish diplomatic relations have failed due to Turkey's preconditions. In 2008, at the initiative of the President of Armenia, a potential new phase of Armenian-Turkish relations was started as evidenced by the signing in October 2009 by the Ministers of Foreign Affairs of the two countries of a "Protocol on the Establishment of Diplomatic Relations Between the Republic of Armenia and the Republic of Turkey" and "Protocol on Development of Relations Between of the Republic of Armenia and the Republic of Turkey." However, after the signature, Turkey changed its position and rejected to implement the agreements on the normalization of the relations within a reasonable timeframe and without preconditions. Instead, the Turkish authorities tied the ratification of the protocols in the Grand National Assembly of Turkey to the resolution of the Nagorno-Karabakh conflict.

Taking into account the situation created by Turkey, as well as the call of the Political Council of the parties-members of the ruling coalition, on 22 April 2010, the President of Armenia signed a decree on the suspension of the process of ratifications of the protocols. On 16 February 2015, the protocols were called back from the National Assembly.

Turkey continues to deny the Armenian Genocide and denigrate its victims and their memory.

### *Iran*

The Islamic Republic of Iran promptly recognised the independence of Armenia upon its founding, and soon afterwards the two countries signed a declaration on establishing diplomatic relations. In 1995, the two countries signed an agreement on construction of an Iran-Armenia gas pipeline, which came into operation in May 2009. The Iranian gas is bartered for Armenian electricity. In 2018, 524.0 million cubic metres of gas were supplied under this arrangement, roughly 21.3% of Armenia's natural gas supply. Construction of a new electricity transmission line to Iran is expected to be completed in 2020-2021, which would enable significantly larger export of electricity to Iran. See "*Economy of Armenia—Energy—Petroleum Products and Natural Gas*." In 2017, Armenia established a free-economic-zone adjacent to the border with Iran near the town of Meghri, offering tax benefits to foreign and Armenian businesses operating there – it is hoped this may attract Iranian businesses in light of Armenian's access to the EEU and EU markets on no-tariff or low-tariff terms. Transport infrastructure between Iran and Armenia remains very limited. On 2 July 2019, in the margins of the 16th meeting of the Armenia-Iran Intergovernmental Commission a Memorandum of Understanding was signed, under which opportunities for cooperation between the two states in the areas of energy, nature protection, transport, finance, trade and others are to be explored. In this process Armenia will remain cognizant of relevant sanctions regimes. In general, Armenia's relations with Iran are cordial. At the same time, Armenia is conscious of the international sanctions that have been imposed on Iran, and complies with the sanctions. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with the Islamic Republic of Iran*."

### *Russia*

Armenia and Russia enjoy strategic allied relations, and cooperate within the framework of regional multilateral institutions such as the EEU, the CSTO and the CIS. This year the Armenian Ministry of Defence deployed humanitarian mission to provide humanitarian assistance in Syria, clearing landmines and providing medical care, in cooperation with the Russian military. Maintaining good relations with Russia is crucial for Armenia given the role Russia plays in Armenia's trade and investment, workers' remittances, energy supply and distribution, and military security. Russia is the largest investor in Armenia and maintains a military base there. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*."

### *China*

China is Armenia's third largest trade partner behind Russia and the EU. For the last decade the annual volume of trade turnover between Armenia and China has been within the range of U.S.$500 to U.S.$700 million, accounting for roughly 9% of the total Armenia trade turnover. Armenia and China have developed relations of friendly cooperation over the last decades. Armenian Governments has expressed its support to China's One Belt One Road initiative and joined its Economic Belt of Silk Road component.

## The Armenian Diaspora

The depredations that Armenia has endured over the centuries (and especially at the time of persecution and genocide in the Ottoman Empire at the beginning of the 20th century) has led hundreds of thousands of Armenians to emigrate. There are significant ethnic Armenian communities in: the United States, mostly concentrated around Los Angeles and Boston; Europe, with the largest community in France; Latin America, most significantly in Argentina; as well as in the Middle East, with significant concentrations in Syria, Lebanon and Egypt. A large population of ethnic Armenians live in Russia (some on a seasonal basis), augmented by emigrants in the past three decades escaping civil strife in the South Caucasus and drawn by better economic conditions. Worker remittances from Russia (predominantly from ethnic Armenians to their families in Armenia) are a key source of capital and investment for the Armenian economy. *See* "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*." Some of the diaspora has returned to Armenia after it achieved its independence, although emigration in recent years is estimated to be roughly 20,000-25,000 persons per year. The Armenian diaspora provides important moral and financial support to Armenia. From 2008 to July 2019, Armenia operated a Ministry of the Diaspora, which was established to strengthen ties between the Armenian diaspora and their homeland and to promote Armenian national identity. In July 2019, the principal functions of the Ministry of the Diaspora were transferred to the Office of the High Commissioner on Diaspora Issues within the Staff of the Prime Minister.

## ECONOMY OF ARMENIA

### Overview

Armenia has made the successful transition from a centrally planned economy to a market economy, having implemented a broad set of political and economic reforms designed to stimulate growth and investment, maintain price stability, restore confidence in the dram and improve tax collection.

The advent of the new Government led by Prime Minister Pashinyan marks a cardinal opportunity to re-invigorate efforts to improve the economy of Armenia and to make it more dynamic, resilient and inclusive. The 2019 Government Programme highlighted the following strategic tasks to expand Armenia's economic potential and promote inclusiveness:

- strengthening competition;
- enhancing governance;
- developing human capital;
- developing infrastructure; and
- preserving macroeconomic and financial stability.

The principal sectors of the Armenian economy are industry, agriculture, trade and real estate. In 2018, mining and manufacturing on the combined basis accounted for 14.2% of nominal GDP, followed by agriculture at 13.7%, trade at 11.3% and real estate at 7.9%.

Since 2014, the Armenian economy has been growing (in real terms): by 3.6% in 2014, 3.2% in 2015, 0.2% in 2016, 7.5% in 2017 and 5.2% in 2018. The slow growth of 0.2% in 2016 was largely attributable to the downturn in the Russian economy, which historically has had an important influence on the Armenian economy, although now the two economies are de-coupling. See "*Risk Factors—Risk Factors Relating to Armenia—Vulnerability to Global/Regional Economic Conditions and Commodities Markets and to the Russian Economy*." The budget deficit stood at 1.9% of GDP in 2014, 4.8% in 2015, 5.5% in 2016, 4.8% in 2017 and 1.8% in 2018. Armenia's trade deficit for goods and services equalled 15.7% of GDP in 2018 and 14.4% of GDP in the three months ended 31 March 2019.

In recent years, new drivers for Armenian economic growth have come to the fore, in particular:

- the IT sector, which is increasingly geared towards research and development of high and emerging technologies, both in software design and hardware engineering, and servicing a wide region as a hub, providing a foundation for the development of a skills- and knowledge-based economy. IT companies are attracted by Armenia's expanding pool of technology specialists and entrepreneurs, aided by the partnership of many of these companies with universities and high schools and increasing availability of private funding across different stages for start-ups, which create an ecosystem conducive for growth;
- tourism, where ongoing investments in hotels are expected to further raise tourism capacity; and
- light manufacturing, in particular textiles/clothing (with textiles/clothing exports growing from U.S.$50.3 million in 2014 to U.S.$225.3 million in 2018).

These developments diversify the Armenian economy, strengthen its resilience to shocks and act to de-couple the Armenian economy from the Russian economy.

The Government has put into place a legislative framework designed to promote foreign investment in Armenia. Key components of this framework include a streamlined tax system with beneficial tax regimes for certain projects, a progressive customs regime with low import tariffs and no export restrictions, and a system that allows for the free movement of capital and the repatriation of earnings, dividends or interest. See "—*Economic Policy*." In 2018, FDI inflows equaled U.S.$254.2 million. See "*External Sector—FDI*." To spur

FDI and attract foreign investors into the country, a special unit under the Ministry of Economy is to be established to serve as a "one-stop-shop" with a mandate of FDI promotion, investor aftercare and assistance to exporters.

Armenia has been assigned foreign currency sovereign credit ratings of Ba3 (Moody's) with stable outlook as announced on 27 August 2019 and B+ (Fitch) with positive outlook.

**Economic Policy**

The Government is committed to alleviating poverty, reducing unemployment and improving the overall socio-economic condition of the Armenian population. To achieve these goals, the Government adheres to a liberal economic policy that is designed to increase the competitiveness of the Armenian economy and foster sustainable, long-term economic growth.

The Government continues to pursue reforms aimed at creating an economic environment that is both transparent and business friendly for local entrepreneurs and foreign investors alike. The Government of Prime Minister Pashinyan is seeking to re-invigorate these efforts, and the 2019 Government Programme for 2019-2023 is based on two pillars:

- anchoring fiscal policy on the fiscal rule to maintain debt sustainability, and creating space for priority (social and capital infrastructure) spending; and

- implementing a strong package of structural reforms, with renewed emphasis on productivity, inclusiveness and governance.

The Government has also made clear that fighting corruption is a key element of its economic strategy, and has set out the following programme to tackle corruption:

- by the end of this year, establishing a new autonomous anti-corruption body in line with country best practices and international standards combining all detection and investigative functions staffed with officials whose professional qualifications and integrity are ensured through a transparent vetting process; subject to a robust external oversight process; with adequate research, intelligence and analytical capabilities that can access all relevant information for its investigations; displacing the jurisdiction of the other agencies accordingly;

- creating a registry of beneficial ownership information that can conduct verification exercises, starting with companies in the extractive industry;

- taking steps so that existing requirements on state employees to make asset declarations are realized in practice (and in particular, staffing the Commission for the Prevention of Corruption, which administers such declarations), and to secure the interoperability of the data systems for asset declarations with the tax declaration system;

- assessing how to improve judicial administration of corruption cases, including inflow, processing time, clearance rate, backlogs and workload assessment;

- revising the Criminal Code of the Republic of Armenia to (i) eliminate threshold amounts on embezzlement, (ii) introduce criminal liability for legal persons, (iii) amend the statute of limitations terms for corruption cases so that it commences at the point of discovery (not at the time of the completion of the act), and (iv) retain criminal liability in case of repayment for corruption crimes, notably in tax cases.

The above goals are complemented by the traditional responsibilities of the CBA to:

- further strengthen of the monetary policy framework and maintain a flexible exchange rate system; and

- safeguard the financial system and improve access to finance.

The following areas remain core components of Armenia's economic development policy:

*Improving the business environment*. The new Government of Prime Minister Pashinyan has made improvement of the business environment a key goal in an effort to achieve a more dynamic, resilient and inclusive economy. In announcing its recent stand-by arrangement to Armenia, the IMF confirmed the sentiment expressed in the Government's letter of intent to the IMF that the 2019 Government Programme marks a "watershed moment creat[ing] a new opportunity for Armenia to deal with the oligarchical economic system and combat corruption." As part of this effort, significant changes are being made to Armenia's tax system, designed in part to improve transparency and compliance. See "*Public Finance—Armenian Tax System*." These current efforts build on prior reforms. In 2010, for example, the Government passed a Code of Corporate Governance drafted in accordance with OECD principles and international best practices (which is this year under a review for updating). In 2011, the Government launched the "regulatory guillotine" initiative, which was completed in 2015 and resulted in a substantial reduction of regulations that impact business operations in Armenia. The CBA has also played a role in improving Armenia's business climate, having issued a series of legal acts aimed at ensuring the confidentiality of credit information, which expedites the process for obtaining loans.

*Investment climate*. Armenia has adopted an "open door" policy designed to promote foreign investment. In line with this policy, the Armenian economy features the following attributes to promote the country's business climate and attract FDI: (i) the free repatriation of capital; (ii) lack of export duties and other export restrictions; (iii) full convertibility of the dram; and (iv) lack of restrictions on the foreign ownership of property and assets in Armenia (with certain exceptions in respect of land ownership). A conducive business environment in Armenia supports Armenia's ranking of 41 out of 190 countries in the 2019 Ease of Doing Business Ranking prepared by the World Bank. A number of initiatives aimed at improving investment policy and business environment are being currently implemented, in particular: (i) review of the Armenia investment policy with the support of UNCTAD; (ii) development of eRegulations Armenia Portal, which is aimed at providing detailed, practical and up-to-date description of business and foreign investment matters, within the framework of the United Nations Development Programme, with the project being funded by Austrian Development Cooperation; and (iii) inclusion of Armenia into the OECD FDI Regulatory Restrictiveness Index, which measures statutory restrictions on FDI. Armenia is a party to several bilateral and multilateral free trade agreements, and has been a member of the WTO since 2003. Armenia became a member of the EEU in January 2015. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*." Armenia has also entered into bilateral investment treaties and double-taxation treaties with over 40 countries. See "*External Sector*" and "*Monetary and Financial System*." Armenia and the EU entered into the CEPA, which serves as the basis for improvement of the Armenian-European trade and economic relations. See "*Description of Armenia—International Relations—European Union*." Since 2009, Armenia has benefited from participation in the GSP+ preferential trading regime. See "*External Sector—International Trade Agreements*."

*Industrial policy*. Industry has historically been and continues to be one of the largest sectors of the Armenian economy. The Government has adopted an export-led industrial policy that is designed to position Armenia as a leading producer of high-value and knowledge-intensive goods and services. The Government is generally supporting efforts to improve technical education and training so as to significantly enhance productivity. 11 sectors have been identified as having significant export potential, including pharmaceuticals, precision engineering and biotechnology, and the Government intends to support these sectors, in addition to its more developed industries, such as metallurgy and mining. Measures the Government plans to take in respect of its industrial policy include: (i) further simplifying import/export procedures; (ii) streamlining property registration procedures; (iii) further developing the legal framework for protecting intellectual property rights; (iv) enhancing the ability of local enterprises to absorb technology and knowledge (including adoption of international standards of production such as those promoted by the International Organisation for Standartisation); (v) improving infrastructure; and (vi) supporting integration of Armenia-based enterprises into regional and global value chains. To this end, to date Armenia has created four free economic zones ("**FEZs**") which benefit from investment-friendly tax and customs regimes. See "*Public Finance—Armenian Tax System—Beneficial Tax Regimes—Free Economic Zones (FEZs)*."

*Quality Infrastructur*e. Recognising the critical role that high quality infrastructure plays in the country's continuing economic development, the Government has carried out several major infrastructure projects over the past decade, including the renovation of Zvartnots International Airport ("**Zvartnots Airport**") outside Yerevan. In close collaboration with international organisations and foreign governments, the Government has renovated hundreds of kilometres of roads across the country and is currently implementing the North-South Highway Project, which is designed to reconstruct the highway system that extends from Armenia's southern border with Iran to its northern border with Georgia. See "*—Principal Sectors of the Economy—Transport and Storage—Road Transport*." Improving Armenia's infrastructure, including its road network and irrigation system, remains a priority of the Government.

*Legal Reform*. The Government has demonstrated a clear commitment to developing a legal framework that supports business and economic development. In recent years, Armenia has introduced several important legal reforms to streamline the regulatory framework facing businesses and to promote the country's investment climate. As a means to further integrate Armenia into the global economy, the Government also places a priority on harmonising Armenia's legislation, particularly in the fields of economic competition, trade and corporate governance, with model legislation in other countries and international best practices. Since 2011, all draft laws must undergo a regulatory impact assessment, which is designed to improve the effectiveness of legislation, enhance the transparency of the legislative process and reduce corruption. Regulatory impact assessments are carried out by multiple ministries, with the Ministry of Economy reviewing draft laws for their impact on economic competitiveness, the Ministry of Finance for their impact on the budget and the Ministry of Justice for their consistency with the Government's anticorruption strategy. In 2019, in an effort to enhance contract enforcement, the Government is developing a plan to strengthen debt enforcement through computerized processing for straightforward debt claims.

*Accounting Reform*. As part of overall efforts to improve corporate transparency, accounting practices and access to finance, in 2019 the Government plans to develop a framework to establish a public oversight body and the Chamber of Accountants and Auditors, which would work on improving corporate financial information and streamline financial reporting requirements for small and medium-sized enterprises ("**SME**").

*Support for SME Sector*. The Government views the promotion of the SME sector as critical for reducing unemployment, balancing regional development and creating a robust middle class. In 2001, the National Assembly adopted the Law of Armenia on State Support for Small and Medium Entrepreneurship, which codified the Government's strategic commitment to the SME sector; since 2001, the Government has passed an Annual SME State Support Programme that sets forth key objectives for the sector in the upcoming year. In 2002, the Government established the Small and Medium Entrepreneurship Development National Centre of Armenia (the "**SME DNC**"), which is the main organisation responsible for providing state support to SMEs. The SME DNC's duties include expanding SMEs' access to financing, liaising between SMEs and the Government and otherwise serving as a "one-stop-shop" for stakeholders in the SME sector. Under the 2019 Tax Reform, SMEs will benefit, starting in 2020, from the ceiling for a small business being exempt from corporate profit tax and VAT rising from annual revenues of AMD58 million to AMD115 million.

#### Gross Domestic Product

The following table sets forth certain information about Armenia's GDP for the periods indicated:

**Gross Domestic Product Indicators**

| | For the year ended 31 December | | | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2018 | 2019 |
| Nominal GDP (AMD, millions) | 4,828,626 | 5,043,633 | 5,067,294 | 5,564,493 | 6,005,058 | 2,476,990 | 2,723,986 |
| Nominal GDP (U.S.$, millions)(1) | 11,610 | 10,553 | 10,546 | 11,527 | 12,433 | 5,139 | 5,626 |
| Real GDP (AMD, millions)(2) | 4,719,641 | 4,870,670 | 4,880,411 | 5,246,442 | 5,519,257 | 2,254,502 | 2,408,479 |
| Real GDP (U.S.$, millions)(1) | 11,522 | 11,981 | 10,574 | 11,337 | 12,127 | 4,677 | 4,975 |
| Real GDP growth (period-on-period, %) | 3.6 | 3.2 | 0.2 | 7.5 | 5.2 | 8.7 | 6.8 |
| GDP deflator (period-on-period, %) | 2.3 | 1.2 | 0.3 | 2.2 | 2.6 | 4.4 | 2.9 |
| Nominal GDP per capita (AMD) | 1,602,172 | 1,678,637 | 1,693,444 | 1,867,656 | 2,022,586 | 833,652 | 919,194 |
| Nominal GDP per capita (U.S.$) | 3,852.0 | 3,512.0 | 3,524.0 | 3,869.0 | 4,188.0 | 1,729 | 1,899 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Real GDP per capita growth (period-on-period, %)(3) .................................. | 3.9 | 3.5 | 0.6 | 8.0 | 5.6 | n/a | n/a |
| Real GDP per capita (U.S.$)(1) ........................... | 3,823 | 3,957 | 3,981 | 4,299 | 4,538 | n/a | n/a |

Notes:

n/a = not available.

(1) Converted to dollars, using the period average AMD/U.S.$ exchange rate. See "*Exchange Rates*."
(2) Calculated on the basis of 2013 prices.
(3) Volume index of GDP per capita, as % of previous year.

*Sources:* Armstat; World Bank

The following table sets forth the structure of GDP by expenditure for the periods indicated:

**Gross Domestic Product by Structure**

| | For the year ended 31 December | | | | | | | | | | For the six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | % | % change | % | % change | % | % change | % | % change | % | % change | % | % change | % | % change |
| **GDP**........................... | **100** | **3.6** | **100** | **3.2** | **100** | **0.2** | **100** | **7.5** | **100** | **5.2** | **100.0** | **8.7** | **100.0** | **6.8** |
| **Consumption(1)** ......... | **97.6** | **0.7** | **91.2** | **(6.2)** | **90.8** | **(1.2)** | **92.3** | **10.5** | **92.7** | **5.1** | **94.0** | **6.6** | **98.7** | **11.2** |
| Private........................ | 85.1 | 1.0 | 77.6 | (7.8) | 76.8 | (1.1) | 79.3 | 12.4 | 79.3 | 4.8 | 80.6 | 6.1 | 86.6 | 14.2 |
| Public......................... | 12.1 | (1.2) | 13.1 | 4.7 | 13.5 | (2.4) | 12.3 | (2.1) | 12.8 | 7.4 | 12.8 | 10.9 | 11.6 | (5.8) |
| Non-profit institutions................. | 0.4 | (0.3) | 0.4 | 3.9 | 0.5 | 11.1 | 0.7 | 56.4 | 0.6 | (0.3) | 0.6 | (10.7) | 0.5 | (4.8) |
| **Gross capital formation**.................. | **20.9** | **(3.0)** | **20.7** | **(1.2)** | **18.0** | **(8.7)** | **19.3** | **15.4** | **22.4** | **26.8** | **21.2** | **81.2** | **15.2** | **15.9** |
| Gross fixed assets accumulation ............. | 20.0 | (2.2) | 20.6 | 2.5 | 17.4 | (11.4) | 17.6 | 9.7 | 16.7 | 4.5 | 13.1 | 14.6 | 12.3 | (17.4) |
| Change in inventories.................. | 0.9 | n/a | 0.1 | n/a | 0.7 | n/a | 1.6 | n/a | 5.7 | n/a | 8.2 | n/a | 3.0 | n/a |
| **Net exports**................ | **(18.)** | **n/a** | **(12.)** | **n/a** | **(9.6)** | **n/a** | **(12.)** | **n/a** | **(15.)** | **n/a** | **(15.6)** | **n/a** | **(13.9)** | **n/a** |
| Exports....................... | 28.6 | 6.4 | 29.7 | 4.9 | 33.1 | 19.1 | 37.3 | 18.7 | 37.5 | 4.6 | 41.7 | 7.1 | 38.9 | 1.7 |
| Imports....................... | 47.0 | (1.0) | 41.9 | (15.1) | 42.8 | 7.6 | 49.5 | 24.6 | 52.9 | 12.7 | 57.3 | 24.8 | 52.9 | 1.7 |
| **Statistical discrepancy**............... | **-** | **n/a** | **0.2** | **n/a** | **0.9** | **n/a** | **0.5** | **n/a** | **0.3** | **n/a** | **0.4** | **n/a** | **-** | **n/a** |

Note:

n/a = not available.

(1) Represents expenditures on final consumption.

*Source:* Armstat.

## Principal Sectors of the Economy

The principal sectors of the Armenian economy are industry (*i.e.*, manufacturing together with mining and quarrying) (in 2018, accounting for 14.2% of nominal GDP), agriculture (13.7%), trade (11.3%) and real estate (7.9%).

Armenia has developed a strong manufacturing sector, ranging from the production of foods and beverages to the processing of metals. Its principal food products include canned foods, meat, dairy products and candy, while natural juices, mineral waters, brandy, wine, beer and vodka account for most of Armenia's beverage production. In recent years, textiles/clothing manufacturing has grown significantly. Armenia's metals manufacturing sector is supported by the country's mining activities, which generate copper concentrate, zinc concentrate and molybdenum. In 2016, 2017 and 2018, manufacturing represented 10.3%, 10.6% and 11.3% of Armenia's nominal GDP, respectively.

Agriculture is a large contributor to the Armenian economy as measured by nominal GDP, accounting for 16.4%, 15.0% and 13.7% of nominal GDP in 2016, 2017 and 2018, respectively. Armenia's main agricultural products include vegetables, dairy products, grains, fruits and berries.

Trade (both retail and wholesale) continues to account for a consistently large share of the Armenian economy, representing 9.8%, 11.1% and 11.3% of nominal GDP in 2016, 2017 and 2018, respectively. In 2018, real estate activities accounted for 7.9% of Armenia's nominal GDP, compared to 7.8% in 2017 and 8.6% in 2016.

***Nominal GDP***

The following table sets forth the composition of Armenia's nominal GDP by economic activity for 2014, 2015, 2016, 2017 and 2018 and for the six-month periods ended 30 June 2018 and 2019:

**Nominal GDP by Economic Activity**

| | For the year ended 31 December | | | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | | | | *(AMD millions)* | | | |
| Agriculture, hunting and forestry; fishing | 872,631 | 868,671 | 830,553 | 834,355 | 822,444 | 230,056 | 219,002 |
| Mining and quarrying | 102,553 | 107,718 | 130,835 | 185,510 | 173,213 | 87,494 | 85,364 |
| Manufacturing | 466,755 | 464,326 | 521,153 | 591,568 | 679,030 | 295,674 | 331,603 |
| Electricity, gas, steam and air conditioning supply | 188,032 | 231,279 | 227,108 | 226,849 | 220,860 | 108,696 | 103,989 |
| Water supply, sewage, waste management and remediation | 14,107 | 19,224 | 23,796 | 27,839 | 29,340 | 13,866 | 13,633 |
| Construction | 448,773 | 474,107 | 393,176 | 404,403 | 397,825 | 132,421 | 134,604 |
| Trade[(1)] | 570,369 | 551,485 | 499,044 | 614,987 | 681,163 | 287,453 | 319,357 |
| Transport and storage | 144,518 | 125,912 | 143,496 | 169,358 | 193,967 | 88,095 | 89,447 |
| Hotels and restaurants | 55,106 | 60,263 | 62,416 | 78,160 | 109,514 | 40,040 | 53,968 |
| Information and communications | 162,218 | 170,901 | 179,239 | 185,608 | 193,685 | 92,768 | 96,730 |
| Financial and insurance activities | 206,610 | 196,290 | 221,917 | 272,756 | 319,453 | 147,860 | 171,525 |
| Real estate activities | 403,715 | 437,501 | 434,592 | 436,486 | 476,284 | 226,196 | 234,881 |
| Professional, scientific and technical activities | 53,551 | 58,260 | 60,943 | 60,540 | 69,340 | 29,954 | 31,670 |
| Administrative and support service activities | 41,225 | 41,775 | 44,739 | 50,413 | 57,770 | 24,672 | 24,620 |
| Public administration | 207,903 | 244,554 | 250,607 | 262,763 | 252,489 | 100,601 | 101,591 |
| Education | 136,841 | 148,448 | 153,593 | 151,118 | 153,646 | 69,040 | 68,371 |
| Human health and social work activities | 185,900 | 198,219 | 206,540 | 231,319 | 254,532 | 114,617 | 137,855 |
| Arts, entertainment and recreation | 89,032 | 163,269 | 232,761 | 256,257 | 339,395 | 130,002 | 169,090 |
| Other service activities | 29,584 | 31,872 | 36,358 | 52,180 | 55,736 | 27,018 | 26,987 |
| Private households[(2)] | 2,827 | 2,923 | 2,870 | 2,886 | 2,898 | 1,262 | 1,251 |
| FISIM adjustment[(3)] | (99,958) | (89,162) | (97,244) | (102,935) | (116,656) | (56,262) | (57,591) |
| **Nominal GVA** | **4,282,291** | **4,507,832** | **4,558,490** | **4,992,418** | **5,365,929** | **2,191,521** | **2,357,948** |
| Taxes less subsidies on products | 546,335 | 535,801 | 508,804 | 572,075 | 639,129 | 285,469 | 366,038 |
| **Nominal GDP at market prices** | **4,828,626** | **5,043,633** | **5,067,294** | **5,564,493** | **6,005,058** | **2,476,990** | **2,723,986** |
| Nominal GDP per capita (AMD) | 1,602,172 | 1,678,637 | 1,693,444 | 1,867,656 | 2,022,586 | 833,652 | 919,194 |
| Nominal GDP per capita (U.S.$) | 3,852.0 | 3,512.0 | 3,524.0 | 3,869.0 | 4,188.0 | 1,729 | 1,899 |
| Nominal GDP (U.S.$ millions)[(4)] | 11,610 | 10,553 | 10,546 | 11,527 | 12,433 | 5,139 | 5,626 |

Notes:

(1) Includes wholesale and retail trade and repairs of motor vehicles and personal and household goods.

(2) Includes activities of private households as employers and other miscellaneous production activities of private households.

(3) FISIM refers to the total property income receivable by financial intermediaries minus total interest payable, excluding the value of any property income receivable from the investment of their own funds, as such income does not arise from financial intermediation.

(4) Converted to dollars, using the period average AMD/U.S.$ exchange rate. See "*Exchange Rates.*"

*Source:* Armstat.

The following table sets forth the share of various economic sectors in Armenia's nominal GDP for 2014, 2015, 2016, 2017 and 2018 and for the six-month periods ended 30 June 2018 and 2019:

**Share in Nominal GDP by Economic Activity**

| | For the year ended 31 December | | | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | | | | *(% of Nominal GDP)* | | | |
| Agriculture, hunting and forestry; fishing | 18.1 | 17.2 | 16.4 | 15.0 | 13.7 | 9.3 | 8.0 |
| Mining and quarrying | 2.1 | 2.1 | 2.6 | 3.3 | 2.9 | 3.5 | 3.1 |
| Manufacturing | 9.7 | 9.2 | 10.3 | 10.6 | 11.3 | 11.9 | 12.2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Electricity, gas, steam and air conditioning supply | 3.9 | 4.6 | 4.5 | 4.1 | 3.7 | 4.4 | 3.8 |
| Water supply, sewage, waste management and remediation | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 |
| Construction | 9.3 | 9.4 | 7.8 | 7.3 | 6.6 | 5.3 | 4.9 |
| Trade[(1)] | 11.8 | 10.9 | 9.8 | 11.1 | 11.3 | 11.6 | 11.7 |
| Transport and storage | 3.0 | 2.5 | 2.8 | 3.0 | 3.2 | 3.6 | 3.3 |
| Hotels and restaurants | 1.1 | 1.2 | 1.2 | 1.4 | 1.8 | 1.6 | 2.0 |
| Information and communications | 3.4 | 3.4 | 3.5 | 3.3 | 3.2 | 3.7 | 3.6 |
| Financial and insurance activities | 4.3 | 3.9 | 4.4 | 4.9 | 5.3 | 6.0 | 6.3 |
| Real estate activities | 8.4 | 8.7 | 8.6 | 7.8 | 7.9 | 9.1 | 8.6 |
| Professional, scientific and technical activities | 1.1 | 1.2 | 1.2 | 1.1 | 1.2 | 1.2 | 1.2 |
| Administrative and support service activities | 0.9 | 0.8 | 0.9 | 0.9 | 1.0 | 1.0 | 0.9 |
| Public administration | 4.3 | 4.8 | 4.9 | 4.7 | 4.2 | 4.1 | 3.7 |
| Education | 2.8 | 2.9 | 3.0 | 2.7 | 2.6 | 2.8 | 2.5 |
| Human health and social work activities | 3.8 | 3.9 | 4.1 | 4.2 | 4.2 | 4.6 | 5.1 |
| Arts, entertainment and recreation | 1.8 | 3.2 | 4.6 | 4.6 | 5.7 | 5.2 | 6.2 |
| Other service activities | 0.6 | 0.6 | 0.7 | 0.9 | 0.9 | 1.1 | 1.0 |
| Private households[(2)] | 0.1 | 0.1 | 0.1 | 0.1 | - | 0.1 | - |
| FISIM adjustment[(3)] | -2.1 | -1.8 | -1.9 | -1.8 | -1.9 | -2.3 | -2.1 |
| **Nominal GVA** | **88.7** | **89.4** | **90.0** | **89.7** | **89.4** | **88.5** | **86.6** |
| Taxes less subsidies on products | 11.3 | 10.6 | 10.0 | 10.3 | 10.6 | 11.5 | 13.4 |
| **Nominal GDP at market prices** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Notes:

(1) Includes wholesale and retail trade and repairs of motor vehicles and personal and household goods.

(2) Includes activities of private households as employers and other miscellaneous production activities of private households.

(3) FISIM refers to the total property income receivable by financial intermediaries minus total interest payable, excluding the value of any property income receivable from the investment of their own funds, as such income does not arise from financial intermediation.

*Source:* Armstat.

The following table sets forth the year-on-year growth rates of Armenia's nominal GDP by economic activity for 2014, 2015, 2016, 2017 and 2018 and for the six-month periods ended 30 June 2018 and 2019:

**Growth Rate of Nominal GDP by Economic Activity**

| | For the year ended 31 December | | | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | | | | *(%)* | | | |
| Agriculture, hunting and forestry; fishing | 3.9 | (0.5) | (4.4) | 0.5 | (1.4) | 28.4 | (4.8) |
| Mining and quarrying | (0.1) | 5.0 | 21.5 | 41.8 | (6.6) | 17.7 | (2.4) |
| Manufacturing | 5.8 | (0.5) | 12.2 | 13.5 | 14.8 | 13.2 | 12.2 |
| Electricity, gas, steam and air conditioning supply | 2.6 | 23.0 | (1.8) | (0.1) | (2.6) | (4.6) | (4.3) |
| Water supply, sewage, waste management and remediation | 7.0 | 36.3 | 23.8 | 17.0 | 5.4 | 13.6 | (1.7) |
| Construction | (5.8) | 5.6 | (17.1) | 2.9 | (1.6) | 10.4 | 1.6 |
| Trade[(2)] | 4.0 | (3.3) | (9.5) | 23.2 | 10.8 | 14.1 | 11.1 |
| Transport and storage | 20.3 | (12.9) | 14.0 | 18.0 | 14.5 | 14.4 | 1.5 |
| Hotels and restaurants | 24.3 | 9.4 | 3.6 | 25.2 | 40.1 | 40.2 | 34.8 |
| Information and communications | 7.4 | 5.4 | 4.9 | 3.6 | 4.4 | 6.0 | 4.3 |
| Financial and insurance activities | 13.0 | (5.0) | 13.1 | 22.9 | 17.1 | 14.7 | 16.0 |
| Real estate activities | 8.8 | 8.4 | (0.7) | 0.4 | 9.1 | 10.8 | 3.8 |
| Professional, scientific and technical activities | 16.6 | 8.8 | 4.6 | (0.7) | 14.5 | 15.8 | 5.7 |
| Administrative and support service activities | 7.3 | 1.3 | 7.1 | 12.7 | 14.6 | 19.0 | (0.2) |
| Public administration | 13.1 | 17.6 | 2.5 | 4.9 | (3.9) | (2.6) | 1.0 |
| Education | 5.4 | 8.5 | 3.5 | (1.6) | 1.7 | 0.4 | (1.0) |
| Human health and social work activities | 6.4 | 6.6 | 4.2 | 12.0 | 10.0 | 18.5 | 20.3 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Arts, entertainment and recreation | 45.5 | 83.4 | 42.6 | 10.1 | 32.4 | 26.2 | 30.1 |
| Other service activities | 1.0 | 7.7 | 14.1 | 43.5 | 6.8 | 42.4 | (0.1) |
| Private households[3] | (5.4) | 3.4 | (1.8) | 0.6 | 0.4 | (2.3) | (0.8) |
| FISIM adjustment[4] | 9.2 | (10.8) | 9.1 | 5.9 | 13.3 | 11.1 | 2.4 |
| **Nominal GVA** | **5.8** | **5.3** | **1.1** | **9.5** | **7.5** | **13.7** | **7.6** |
| Taxes on products | 7.9 | (1.9) | (5.0) | 12.4 | 11.7 | 11.2 | 28.2 |
| **Nominal GDP at market prices** | **6.0** | **4.5** | **0.5** | **9.8** | **7.9** | **13.4** | **10.0** |

Notes:

(1) Includes wholesale and retail trade and repairs of motor vehicles and personal and household goods.
(2) Includes activities of private households as employers and other miscellaneous production activities of private households.
(3) FISIM refers to the total property income receivable by financial intermediaries minus total interest payable, excluding the value of any property income receivable from the investment of their own funds, as such income does not arise from financial intermediation.

*Source:* Armstat.

### *Real GDP*

The following table sets forth the composition of Armenia's real GDP by economic activity for the periods indicated (based on 2013 prices):

**Real GDP by Economic Activity**

| | For the year ended 31 December | | | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | *(AMD millions, unless otherwise indicated)* | | | | | | |
| Industry | 733,815 | 776,798 | 839,952 | 947,723 | 995,552 | 452,316.2 | 477,431.8 |
| Agriculture | 891,050 | 1,008,669 | 958,235 | 909,365 | 832,069 | 203,667.1 | 189,711.3 |
| Construction | 455,119 | 441,010 | 378,828 | 389,435 | 392,550 | 131,337.2 | 135,997.9 |
| Services | 2,126,123 | 2,157,642 | 2,233,608 | 2,488,431 | 2,722,391 | 1,177,039.1 | 1,297,655.1 |
| **Real GVA** | **4,207,129** | **4,388,036** | **4,414,364** | **4,736,613** | **4,968,707** | **1,992,309.0** | **2,127,005.9** |
| Taxes less subsidies on products | 515,544 | 489,251 | 471,149 | 516,850 | 558,198 | 257,315.3 | 275,573.6 |
| **Real GDP at market prices** | **4,719,641** | **4,870,670** | **4,880,411** | **5,246,442** | **5,519,257** | **2,254,501.8** | **2,408,479.0** |
| Real GDP per capita[1] | 1,566,010 | 1,621,071 | 1,630,990 | 1,760,906 | 1,858,962 | 758,772.2 | 812,728.1 |
| Real GDP per capita (U.S.$)[1][2] | 3,823 | 3,957 | 3,981 | 4,299 | 4,538 | n/a | n/a |
| Real GDP (U.S.$ millions[1]) | 11,522 | 11,981 | 10,574 | 11,337 | 12,127 | 4,677.0 | 4,974.6 |

Notes:

n/a = not available. Per capita figures are only calculated on an annual basis.

(1) Per capita figures based on the results of the 2011 census.
(2) Converted to dollars, using the period average AMD/U.S.$ exchange rate. See "*Exchange Rates*."

*Source:* Armstat.

The following table sets forth the contribution of various economic sectors to real GDP for the periods indicated (based on 2013 prices):

**Share in Real GDP by Economic Activity**

| | For the year ended 31 December | | | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | *(%)* | | | | | | |
| Industry | 15.5 | 15.9 | 17.2 | 18.1 | 18.0 | 20.1 | 19.8 |
| Agriculture | 18.9 | 20.7 | 19.6 | 17.3 | 15.1 | 9.0 | 7.9 |
| Construction | 9.6 | 9.1 | 7.8 | 7.4 | 7.1 | 5.8 | 5.6 |
| Services | 45.0 | 44.3 | 45.8 | 47.4 | 49.3 | 52.2 | 53.9 |
| **Real GVA** | **89.1** | **90.1** | **90.5** | **90.3** | **90.0** | **88.4** | **88.3** |
| Taxes less subsidies on products | 10.9 | 10.0 | 9.7 | 9.9 | 10.1 | 11.4 | 11.4 |
| **Real GDP at market prices** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

*Source:* Armstat

The following table sets forth the year-on-year growth rates of Armenia's real GDP by economic activity for the periods indicated (based on 2013 prices):

**Growth Rate in Real GDP by Economic Activity**

| | For the year ended 31 December | | | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2018 | 2019 |
| | | | | (%) | | | |
| Industry | (0.9) | 5.9 | 8.1 | 12.8 | 5.0 | 8.9 | 5.6 |
| Agriculture | 6.1 | 13.2 | (5.0) | (5.1) | (8.5) | 5.7 | (6.9) |
| Construction | (4.5) | (3.1) | (14.1) | 2.8 | 0.8 | 8.4 | 3.5 |
| Services | 6.7 | 1.5 | 3.5 | 11.4 | 9.4 | 10.2 | 10.2 |
| **Real GVA** | **3.9** | **4.3** | **0.6** | **7.3** | **4.9** | **8.8** | **6.8** |
| Taxes less subsidies on products | 1.8 | (5.1) | (3.7) | 9.7 | 8.0 | 8.5 | 7.1 |
| **Real GDP at market prices** | **3.6** | **3.2** | **0.2** | **7.5** | **5.2** | **8.7** | **6.8** |

*Source:* Armstat.

### *Agriculture, Hunting and Forestry; Fishing*

In 2018, agriculture accounted for 13.7% of Armenia's nominal GDP, compared to 15.0% in 2017 and 16.4% in 2016. 68.7% of Armenia's land area is classified as agricultural land, which is mainly comprised of pasture. Approximately 53% of Armenia's total sown area is used for grains and grain legumes with the remainder mainly allocated to forage crops, potatoes and vegetables.

The following table sets forth the structure of Armenia's agricultural output by sector and type of farm for the years indicated:

**Share in Agricultural Output by Sector and Farm(1)**

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | | | (%) | | |
| **Household plots** | **97.1** | **97.1** | **96.8** | **96.5** | **n/a** |
| Planting | 60.3 | 57.9 | 55.0 | 51.1 | n/a |
| Animal husbandry | 36.8 | 39.1 | 41.9 | 45.4 | n/a |
| **Commercial organisations** | **2.9** | **2.9** | **3.2** | **3.5** | **n/a** |
| Planting | 0.2 | 0.2 | 0.4 | 0.6 | n/a |
| Animal husbandry | 2.6 | 2.7 | 2.7 | 3.0 | n/a |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **n/a** |

Note:

(1) Share of output in current prices.

*Source:* Armstat.

The following table sets forth Armenia's annual production of certain agricultural products for the years indicated:

**Annual Production of Certain Agricultural Products**

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | *(in thousands of tonnes, unless otherwise indicated)* | | | | |
| Vegetables | 954.6 | 1,007.6 | 968.6 | 861.0 | 628,2 |
| Eggs(1) | 641.8 | 659.8 | 694.6 | 683.0 | 726.8 |
| Milk | 700.4 | 728.6 | 754.2 | 758.2 | 697.7 |
| Potatoes | 696.1 | 607.7 | 606.3 | 547.4 | 415,0 |
| Grains and grain legumes | 580.1 | 601.5 | 604.2 | 302.5 | 337.7 |
| Fruits and berries | 291.0 | 377.1 | 242.6 | 361.6 | 343.4 |
| Grapes | 261.3 | 309.2 | 178.8 | 210.0 | 179.7 |
| Melons | 245.8 | 286.8 | 236.1 | 215.8 | 126.8 |

| | | | | | |
|---|---|---|---|---|---|
| Meat | 93.1 | 100.4 | 106.1 | 109.0 | n/a |
| Wool[(2)] | 1,477.0 | 1,571.0 | 1,641.0 | 1,385.0 | n/a |

Notes:

n/a = not available.

(1) Number of eggs (in millions).
(2) Physical weight (in tonnes).

*Source:* Armstat.

The Government's key objectives in the agricultural sector are to: ensure prosperity and inclusive growth in rural areas; engage rural youth, ensure climate adaptation and sustainable use of the country's natural resources; improve national food and nutrition security; and promote the export of high-value agricultural products that substantially increase the agriculture sector's overall value-add to the economy, all against the background of a strong enabling environment, best-in-class food safety systems, and regional leadership on technology-driven agricultural innovation.

The Government in its current agricultural policy is carrying out concrete objectives and measures, including several that are high priority:

*Land reform*. Most critically, land reform will be an important step for unlocking growth in the agriculture sector. Producers and businesses should be able to access and cultivate agricultural land more effectively to encourage the intensification, higher productivity, and increased scale of agriculture-related activities. This should in turn attract additional investment into rural areas.

*Export diversification*. Another key ambition is to build on Armenia's success in the EEU market and to increase overall export market orientation, quality aspirations, and diversification through entry into new high-value markets (*e.g.*, the EU, Middle East, Japan, and North America) via Government investments into export promotion and – critically – investments into modern food safety standards, phytosanitary enforcement, and modernised traceability and certification systems and practices.

*Commercialisation and value-add activities*. The push toward export diversification and select import substitution activities (*e.g.*, poultry production) will be closely linked to the Government's policy support and catalytic grant investments into agro-processing industry creation and growth (*e.g.*, priority horticulture value chains, wine, dairy, meat). Beyond creating a conducive policy environment, support for essential public goods (*e.g.*, irrigation systems), and targeted support schemes for priority value chains and innovative businesses, the Government will actively pursue new international investments into agriculture, including support from donors for transformative programmes and large-scale commercial investments from international agribusinesses and domestic agribusiness sector leaders.

*Technology, modernisation and innovation*. For Armenia's agricultural sector to be globally competitive, progress must be made on the introduction and effective adoption of modern technologies. The Government will achieve this by investing in the foundations for digital agriculture infrastructure (*e.g.*, farmer and livestock registries, remote-sensing agricultural observatory, digitalisation of operations and extension systems of the Ministry of Economy of Armenia), to establish Armenia as a regional leader in agriculture digitalisation. Technology modernisation will also include the scalable introduction of innovative technologies needed for a modern, thriving agriculture sector (*e.g.*, hail protection systems, irrigation systems, innovative greenhouse and post-harvest technologies).

*Human capacity and skills training*. The development of the agriculture sector will also require further investment in human capacity across all agriculture market segments and levels. This includes reform of educational and vocational training systems so as to engage youth and improve farmer skills and to promote the next generation of Armenian agronomists, agricultural technologists, and entrepreneurs (*e.g.*, investment in building greenhouse management, agro-processing, agricultural product marketing, and financial and business literacy skills).

*Rural development*. For rural areas to become more prosperous and productive, there must be investment in the diversification of income-generating activities and opportunities to integrate rural dwellers into the development planning. This should include improvements in rural community engagement and inclusion through a focus on attracting young, economically-active segments of the population to farming. This is best done by taking a holistic approach to rural development, such as active support for agro-tourism.

*Institutional capacity*. For the broader sector to develop, the ability of the Government to deliver on its objectives depends on the capacity of the institutions that support agriculture and rural development. Going forward, of utmost importance are continuing institutional development and improving the capacity of agricultural institutions to create, improve and oversee improved agricultural policies. This should draw heavily on the introduction of new tools for the Government to interact with beneficiaries more effectively, including farmer registries and payment systems. The success of these efforts will anchor improved communication between policy makers and market participants, and the range of actors across the value chains.

Agriculture is an important component of Armenia's exports. In 2018, prepared foodstuffs, vegetables and animals/animal products accounted for 22.9%, 3.9% and 2.1%, respectively, of Armenia's exports. See "*External Sector—International Trade*."

***Mining and Quarrying***

In 2018, mining and quarrying accounted for 2.9% of Armenia's nominal GDP, compared to 3.3% in 2017 and 2.6% in 2016. These trend lines reflect in part the performance of the Teghut mine, which stopped production in 2018. In 2018, Armenia's mining and quarrying sector accounted for 15.7% of the value of the country's overall industrial production. Metal ores accounted for 95.5% of mining and quarrying output in 2018, in particular molybdenum, copper and zinc. Most of Armenia's mining and quarrying production takes place in Syunik, the country's southernmost region where many of the country's largest mines are located, including the Zangezur Copper Molybdenum Complex, which holds significant reserves of molybdenum.

***Manufacturing***

In 2018, manufacturing accounted for 11.3% of Armenia's nominal GDP, compared to 10.6% in 2017 and 10.3% in 2016. In the six months ended 30 June 2019, manufacturing accounted for 12.2% of Armenia's nominal GDP, compared to 11.9% in the six months ended 30 June 2018. The manufacturing sector expanded (in nominal terms) by 12.2%, 13.5% and 14.8% in 2016, 2017 and 2018, respectively, and by 12.2% in the six months ended 30 June 2019 (compared to the six months ended 30 June 2018) mainly due to an increase in the production of food products and tobacco products.

In 2018, Armenia's manufacturing sector accounted for 66.3% of the value of the country's overall industrial production. The main areas of manufacturing in Armenia include food, beverage and tobacco production, basic metals production and non-metallic mineral production, such as rubber, plastics and other non-metallic goods. In 2018, food production accounted for 28.3% of the value of manufacturing output; basic metals for 15.1%; beverage production for 13.2%; and textiles/clothing for 2.1%. Armenia's principal food products include canned foods, meat, dairy and candy. Main beverage products are natural juices, mineral waters, brandy, wine, beer and vodka. Of basic metals, Armenia produces copper concentrate, aluminium foil, zinc concentrate and various molybdenum products, as well as other refined metals. Non-metallic minerals manufactured in Armenia include concrete, cement and other building materials. Approximately half of the country's manufacturing output is generated in Yerevan.

***Electricity, Gas, Steam and Air Conditioning Supply***

In 2018, electricity, gas, steam and air conditioning supply accounted for 3.7% of Armenia's nominal GDP, compared to 4.1% in 2017 and 4.5% in 2016. In the six months ended 30 June 2019, electricity, gas, steam and air conditioning supply accounted for 3.8% of Armenia's nominal GDP, compared to 4.4% in the six months ended 30 June 2018. After the growth (in nominal terms) by 23.0% in 2015 mainly due to an increase in power generation, transmission and distribution, this sector contracted (in nominal terms) by 1.8% in 2016, by 0.1% in 2017, by 2.6% in 2018 and by 4.3% in the six months ended 30 June 2019 (compared to 4.6% the six months ended 30 June 2018) mainly as a result of a decline in power generation, transmission and distribution.

In 2018, Armenia's electricity, gas, steam and air conditioning supply sector accounted for 14.9% of the value of the country's overall industrial production. Nearly half of the country's electricity, gas, steam and air conditioning supply is generated in Yerevan. See "—*Energy*" for a discussion of Armenia's electricity, oil and gas sectors.

### *Construction*

In 2018, construction accounted for 6.6% of Armenia's nominal GDP, compared to 7.3% in 2017 and 7.8% in 2016. In the six months ended 30 June 2019, construction accounted for 4.9% of Armenia's nominal GDP, compared to 5.3% in the six months ended 30 June 2018.

Prior to the global financial crisis, the construction industry experienced significant growth as Soviet-era housing and office buildings were replaced with more modern structures. In 2009, however, the construction sector contracted by over 40% (by a methodology, "NACE 1.1," no longer used), largely as a result of the global financial crisis. In the past two years, the construction sector has had growth of 2.8% in 2017 and 0.8% in 2018. In the six months ended 30 June 2019, the construction sector grew by 3.5%, compared to 8.4% in the six months ended 30 June 2018.

The largest public construction projects undertaken in recent years include the construction of a new terminal at Zvartnots Airport near Yerevan (came into operation in 2011), the construction of a residential-retail project Northern Avenue, which runs through the centre of Yerevan (came into operation in 2007), the overhaul of Republic Square in central Yerevan (completed in 2003), the construction of Kamar business centre in Yerevan (came into operation in 2018). There are also several on-going large construction projects, such as the reconstruction of the Old Yerevan, a historical quarter in the city centre of Yerevan, the ongoing construction of the North-South Highway, a major infrastructure project which would span the country by means of a 556 kilometres long Meghri-Yerevan-Bavra highway, and the construction of a new thermal power plant in Yerevan. There have also been talks concerning the construction of a nuclear power plant (see "*—Energy—Electricity*"). The reconstruction of buildings and homes damaged during the 1988 earthquake continues. Many of Armenia's large-scale construction projects have been financed, in part, by wealthy members of the Armenian diaspora.

### *Real Estate Activities*

In 2018, real estate activities accounted for 7.9% of Armenia's nominal GDP, compared to 7.8% in 2017 and 8.6% in 2016. In the six months ended 30 June 2019, real estate activities accounted for 8.6% of Armenia's nominal GDP, compared to 9.1% in the six months ended 30 June 2018. In 2017 and 2018, the real estate activities grew by 0.4% and 9.1%, respectively. Armenia's real estate market has become more dynamic since mid-2017, reflecting improved economic conditions, more favourable interest rates, introduction of subsidy programmes for young families and Government policies aimed at improving housing construction. In 2018, the total number of real estate transactions across the country increased by 20.4%.

### *Trade*

In 2018, trade accounted for 11.3% of Armenia's nominal GDP, compared to 11.1% in 2017 and 9.8% in 2016. In the six months ended 30 June 2019, trade accounted for 11.7% of Armenia's nominal GDP, compared to 11.6% in the six months ended 30 June 2018. The trade sector comprises retail trade turnover, wholesale trade turnover and motor vehicle trade. In 2018, retail turnover accounted for 48.1% of overall trade turnover, followed by wholesale trade turnover for 47.4% and motor vehicle trade for 4.5%. Food products account for the majority of retail trade turnover by volume.

### *Transport and Storage*

In 2018, transport and storage accounted for 3.2% of Armenia's nominal GDP, compared to 3.0% in 2017 and 2.8% in 2016. In the six months ended 30 June 2019, transport and storage accounted for 3.3% of Armenia's nominal GDP, compared to 3.6% in the six months ended 30 June 2018. The transport and storage sector expanded (in nominal terms) by 14.5% in 2018, compared to 18.0% in 2017 and 14.0% in 2016. The sector expanded by 1.5% in the six months ended 30 June 2019 (compared to 14.4% in the six months ended 30 June 2018) mainly due to a decrease in vehicle transport.

Investment in Armenia's transport infrastructure, particularly the country's road network, continues to be a key priority of the Government. Loans and grants from international organisations have been a significant source of funding for infrastructure projects; funds from the State Budget are also allocated to such projects. See "*Public Debt and Related Matters—Multilateral and Bilateral Development Organisations*." A substantial share of investments in the aviation and rail sectors are made pursuant to long-term concession agreements.

*Road Transport*

As of 31 December 2017, the Armenian road network was comprised of 10,799.3 kilometres of roads, including 7,575.0 kilometres general purpose roads. Of the general purpose roads, Armenia has approximately 1,803.0 kilometres of interstate roads, 1,966.0 kilometres of national roads (between major cities and regional centres) and 3,806.0 kilometres of local roads (between villages and regional centres). In 2018, 24.5 million tonnes of cargo and 159.04 million passengers were carried by road transport. Freight and passenger turnover on Armenia's road network equalled 850.0 million tonnes-kilometres and 2,227.5 million passengers-kilometres, respectively, in 2018. Motor vehicles remain the most popular form of transport in Armenia, accounting for 84.0% of total cargo volumes and 85.3% of total passenger volumes, by type of transport in 2018.

Because Armenia is a landlocked country, the development and maintenance of its road network are critical to the country's sustainable development. In recent years, the Government has significantly increased funding for construction, rehabilitation and maintenance of Armenia's road network. The Government has prioritised the reconstruction of over 7,500 kilometres of roads. As part of its anti-crisis policy, from 2009 to 2013, the Government implemented the Lifeline Roads Improvement Project (the "**LRIP**"), which was designed to rehabilitate the country's rural road network and, in particular, to ensure that each rural community has access to at least one "lifeline road" connected to an interstate highway. The lifeline road network runs over 3,000 kilometres, and, by some estimates, 60% of this network remains in poor condition. The World Bank provided U.S.$101.6 million in financing to support the LRIP. In 2013, the World Bank approved a follow-up project to the LRIP, the Lifeline Road Network Improvement Project (the "**LRNIP**"). The LRNIP is financed through two loans totalling U.S.$85 million. The original loan in the amount of U.S.$45 million was provided in 2013. Additional financing of U.S.$40 million in order to increase the project scope was provided in 2015. As of March 2019, 274 kilometres of lifeline roads had been rehabilitated under the LRNIP, and the rehabilitation of another 114 kilometres is in progress. By 31 December 2019, the current closing date of the project, the total number of kilometres rehabilitated under the LRNIP are expected to be 388 kilometres. The LRIP and the LRNIP has led to substantial reductions in travel time and helped stimulate employment in the regions. The LRIP and the LRNIP have also improved overall road safety, as sidewalks and facilities for disabled pedestrians were introduced on lifeline roads passing through residential areas.

The ADB has also provided loans for road construction and rehabilitation in Armenia within the framework of the Rural Road Sector Programme and for the construction of North-South Highway. The financing for the construction of the North-South Highway amounted to U.S.$330 million and was provided via three loans, in 2008, 2009 and 2014.

*Civil Aviation*

Currently, Armenia maintains two airports with regularly-scheduled commercial service: Zvartnots Airport near Yerevan and the Shirak International Airport ("**Shirak Airport**") outside Gyumri. In 2018, traffic at Zvartnots Airport increased by 10% to 2,690,727 passengers from 2,448,251 passengers in 2017. In 2018, traffic at Shirak Airport increased by 59% to 165,946 passengers from 105,664 passengers in 2017. Shirak Airport currently operates scheduled flights to Moscow.

Zvartnots Airport was built in 1961 and underwent renovations in the 1980s. In 2001, the Government entered into a 30-year concession agreement with Armenian International Airports CJSC ("**Armenian International Airports**") for the management of operations at the airport. Armenian International Airports is owned by the Argentine company, Corporation America. Since 2007, Armenian International Airports has also managed operations at Shirak Airport.

In 2004, construction of a new international terminal began at Zvartnots Airport. The new arrivals terminal opened in 2006, followed by a new departures terminal in 2007. Between 2008 and 2011, an additional passenger terminal was built, doubling the number of passenger check-in counters and security control points. As a result of these renovation projects, Zvartnots Airport has the capacity to serve up to 3.5 million passengers annually. Zvartnots Airport is currently serviced by approximately 30 airlines with regular flights to Europe, Russia and the Middle East. In January 2013, Zvartnots Airport was named the best airport in the CIS during the Emerging Markets Airports Award ceremony in Dubai.

Currently, the following airlines operate in Armenia: Aircompany “Armenia,” which performs scheduled flights to Tel-Aviv, Beirut, Mineralnie Vodi and Voronezh as well as charter flights; Taron-Avia, which focuses on charter and freight services; and Atlantis Armenian Airlines, which flies light aircraft.

The Government has been working with several international organisations to develop a new policy framework for the country’s civil aviation sector. The framework, which was approved in October 2013, aims to increase competition, improve connectivity, enhance service costs and lower costs. As part of this new policy, the Government is in the process of introducing ‘open skies’ principles into its bilateral aviation agreements, and has begun negotiations with the EU on a Common Aviation Area Agreement. Since 2008, Armenia has had an open skies agreement in place with the U.S.

Armenia is a member of several supra-national aviation organisations, including the International Civil Aviation Organisation, the European Civil Aviation Conference, the Interstate Aviation Committee and, since 2006, EUROCONTROL. As a member of EUROCONTROL, Armenia plans to continue harmonising its air traffic control and navigation practices with those of the EU. Armenia is also a party to over 40 bilateral agreements on air transport and air services.

*Railways*

The Armenian railway system runs on 796.6 kilometres of track (as of 31 December 2017), and is used mainly for cargo transport. In 2018, 2.9 million tonnes of freight (or 9.9% of all freight transported in Armenia) were shipped by rail, and freight turnover amounted to 731.8 million tonnes- kilometres. The main types of cargo shipped by rail include non-ferrous metal ore (1,708.4 thousand tonnes in 2018), petroleum and petroleum products (364.1 thousand tonnes in 2018), mineral building materials (242.0 thousand tonnes in 2018), grain and re-grinding products (87.6 thousand tonnes in 2018) and cement (18.1 thousand tonnes in 2018). In 2018, approximately 384,200 passengers travelled by rail, 0.2% of total passenger volumes by type of transport.

Since 2008, Armenia’s railway system has been operated by Southern Caucasus Railways, a subsidiary of the Russian state-owned enterprise Russian Railways, pursuant to a 30-year concession agreement. Pursuant to the concession agreement, Russian Railways is expected to invest approximately AMD175 billion in the development of Armenia’s rail infrastructure through 2038. As part of the concession, in April 2012, Russian Railways completed the reconstruction of the Zamanlinsky Bridge, which crosses the River Debed in Lori Marz. The Zamanlinsky Bridge was first built in 1898 along the Tbilisi-Kars Railway Line and was at that time considered to be the highest railway bridge in Tsarist Russia. Between 2008 and 2018, Southern Caucasus Railways invested approximately AMD110 billion.

Southern Caucasus Railways currently operates seven passenger routes, including two international routes: from Yerevan to Tbilisi and from Yerevan to Batumi (through Tbilisi). Currently, all rail links with Azerbaijan, Turkey and Iran (through Nakhichevan) are closed.

*Metro*

Armenia operates one metro system, the Yerevan Metro. The Yerevan Metro opened in 1981 and runs on a single, 13.4 kilometres line, servicing 10 stations. In 2017, there were approximately 16.2 million trips on the Yerevan Metro. The European Investment Bank, together with the EBRD, have been financing a programme to renovate the Yerevan Metro, which includes the rehabilitation of rail carriages and improvements to its drainage system, as well as other structural improvements. The expansion of the Yerevan Metro, including the possible opening of a second or third line, is under discussion.

***Information and Communications***

In 2018, information and communications accounted for 3.2% of Armenia’s nominal GDP, compared to 3.3% in 2017 and 3.5% in 2016. In the six months ended 30 June 2019, information and communications accounted for 3.6% of Armenia’s nominal GDP, compared to 3.7% in the six months ended 30 June 2018.

Mobile telephony is now generally used in Armenia. 3G was introduced in 2008 and is now available in most major towns and cities of Armenia. As of 31 December 2017, there were approximately 3.49 million mobile phone subscribers. The major mobile network operators in Armenia are Beeline, VivaCell-MTS and Ucom.

VEON Armenia (trademark Beeline), previously known as Armentel, controls all of the country's fixed-line networks and a significant share of the country's cellular network; it is wholly-owned by the Russian mobile network operator Vimpelcom. VivaCell-MTS currently has the largest number of mobile subscribers; it is 80%-owned by the Russian telecommunications company MTS. Ucom entered the Armenian market in 2015 when it acquired Orange Armenia from Orange S.A. (previously known as France Télécom).

In 2017, 64.7% of the Armenian population were internet subscribers, compared to 25.0% in 2010, according to International Telecommunication Union, the United Nations specialised agency for information and communication technologies. Internet services in Armenia are provided through a range of fixed wire networks, such as dial-up and DSL, wireless fixed networks, such as Wimax, and mobile communications networks, such as GSM, GPRS, EDGE, UMTS and HSDPA. Information and communications has been designated by the Government as a priority sector for investment and development. The number of companies operating in this sector, both local start-ups and branches of foreign companies, has increased significantly over the past 10 years. Armenia is connected to the Trans-Asia-Europe fibre-optic cable system, which runs from the Black Sea port of Poti, Georgia to Tbilisi and then south to Armenia. At Poti, the Trans-Asia-Europe cable connects to KAFOS, a sub-marine telecommunications system in the Black Sea, which, in turn, connects to the Black Sea Fibre Optic Cable System.

### *Financial and Insurance Activities*

In 2018, financial and insurance activities accounted for 5.3% of Armenia's nominal GDP, compared to 4.9% in 2017 and 4.4% in 2016. In the six months ended 30 June 2019, financial and insurance activities accounted for 6.3% of Armenia's nominal GDP, compared to 6.0% in the six months ended 30 June 2018.

In recent years, the financial services sector has grown. In 2018, the financial and insurance sector grew (in nominal terms) by 17.1%, compared to 22.9% in 2017 and 13.1% in 2016. In the six months ended 30 June 2019, the sector increased (in nominal terms) by 16.0%, compared to 14.7% in the six months ended 30 June 2018. According to the CBA, total assets of Armenia's banking sector increased in nominal terms by 14.3% from AMD4,364.4 billion as of 31 December 2017 to AMD4,986.4 billion as of 31 December 2018. Net profits of the banking sector decreased in nominal terms by 4.1% from AMD40.2 billion in 2017 to AMD38.6 billion in 2018. See "*Monetary and Financial System—Financial Services Industry—Banking Sector*."

The growth in Armenia's financial services sector has mainly been driven by an increase in customer loans. For example, the gross loan portfolio increased from 45.1% of GDP in 2017 to 48.9% of GDP in 2018. The rise in loans reflects, in turn, increased access to and demand for funding, greater competition among banks and higher volumes of foreign investment in the sector. See "*Monetary and Financial System—Financial Services Industry—Banking Sector*." Net profits in the banking sector decreased in 2018 mainly as a result of the decrease in the spread between deposit and credit interest rates and an increase of non-interest expenditures. See "*Monetary and Financial System—Financial Services Industry—Banking Sector*."

## Energy

### *Electricity*

The following table sets forth Armenia's total electricity capacity for the years indicated:

**Electricity Capacity**

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** |
| | *(kW thousands)* | | | |
| **Total capacity** | **4,099.5** | **4,086.8** | **4,112.0** | **4,129.6** |
| Thermal power plants | 2,390.0 | 2,390.0 | 2,390.0 | 2,390.0 |
| Hydropower plants | 1,298.1 | 1,286.7 | 1,311.6 | 1,326.8 |
| Nuclear power plants | 407.5 | 407.5 | 407.5 | 407.5 |
| Wind farms | 3.9 | 2.6 | 2.9 | 5.3 |

*Source:* Armstat.

The following table sets forth Armenia's electricity generation and consumption for the years indicated:

**Electricity Generation and Consumption**

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | *(kWh millions, except where indicated)[(1)]* | | | | |
| **Total generation** | **7,750.0** | **7,798.2** | **7,315.2** | **7,762.9** | **7,776.9** |
| Nuclear power plants | 2,464.8 | 2,787.7 | 2,380.5 | 2,619.6 | 2,076.1 |
| Thermal power plants | 3,288.6 | 2,801.2 | 2,581.5 | 2,871.8 | 3,375.6 |
| Hydropower plants | 1,992.6 | 2,205.6 | 2,351.4 | 2,269.0 | 2,318.2 |
| Wind farms | 4.0 | 3.7 | 1.8 | 2.5 | 1.9 |
| **Total consumption** | **6,705.9** | **6,548.1** | **6,361.5** | **6642.8** | **n/a** |
| Distribution companies and direct customers | 5,777.1 | 5,736.3 | 5,655.5 | 5974.3 | n/a |
| Transmission losses | 928.8 | 811.8 | 706.0 | 668.5 | n/a |
| Losses to total consumption (%) | 13.9 | 12.4 | 11.1 | 10.1 | n/a |
| **Net import (export)** | **(10,44.1)** | **(1,250.1)** | **(953.7)** | **(1,120.1)** | **(1,478.7)** |
| Import | 191.4 | 173.6 | 275.1 | 319.5 | 140 |
| Export | 1,235.5 | 1,423.7 | 1,228.8 | 1,439.6 | 1,618.7 |

Note:

n/a = not available.

(1) Kilowatt hours.

*Source:* Armstat.

The single largest generator of electricity in Armenia is its sole nuclear power plant, the Metsamor Plant, which has historically generated approximately one-third of Armenia's electricity supply and in 2018 approximately 27%.

The Metsamor Plant, which is located 36 kilometres outside Yerevan, operates a single unit (the second power unit) that initially came into use in 1980, was closed as a precautionary measure following the 1988 earthquake and was re-activated in 1995 to help address electricity shortages. The other unit (the first power unit) has not been re-activated after the earthquake. Although the EU has publicly requested its closure, in April 2012 Armenia announced that the Metsamor Plant would remain in operation for the next decade. In December 2014, it was further announced that Rosatom, the Russian state-owned nuclear power company, would undertake a project to extend the operating lifetime of the second power unit of Metsamor Plant to 2026, and in February 2015 Russia agreed to provide a U.S.$270 million loan (and also a U.S.$30 million grant to support safety upgrades) to finance this project. The works were initially planned to be completed in 2019, however in July 2019, it was announced that they were expected to be completed in 2020-2021. Russia provides the fuel used at the Metsamor Plant, which is transported by air to Yerevan. In July 2019, Armenian Deputy Prime Minister Tigran Avinyan announced that Armenia was negotiating with Russia the construction of a new nuclear plant to replace the Metsamor Plant after its decommissioning.

There are three thermal power plants in Armenia: the Hrazdan Thermal Power Plant, with a capacity of 1,210 MW, the Yerevan Thermal Power Station, with a capacity of 550 MW, and the Vanadzor Thermal Power Station, with a capacity of 96 MW (not operating). Armenia's thermal power plants are fired by natural gas imported from Russia and Iran. The Hrazdan Thermal Power Plant operates four Soviet-era units and a fifth unit with a capacity of 480 MW that came on line in 2012, which is owned by Gazprom Armenia.

The Yerevan Thermal Power Station has one Soviet-era turbine and a second unit with a capacity of 240 MW. Construction of the second unit was financed by a long-term U.S.$247 million loan from the Japanese Bank of International Cooperation. The loan was extended on concessional terms. The Yerevan Thermal Power Station is wholly-owned by the Government. Thermal power has become an increasingly important part of Armenia's electricity policy since the Yerevan Thermal Power Plant second unit came on line in 2010. Whereas, in 2010, thermal power accounted for approximately 22.2% of Armenia's electricity supply, in 2018 it provided approximately 43%.

Armenia also operates a series of hydropower plants, which in 2018 collectively generated approximately 30% of Armenia's electricity supply. Armenia's largest hydropower plant is the Sevan-Hrazdan Cascade, with an installed capacity of 556 MW. The Sevan-Hrazdan Cascade was built between 1936 and 1961 and consists of seven hydropower stations, canals and reservoirs between Lake Sevan and Yerevan. The Sevan-Hrazdan Cascade is majority-owned by the Russian company RusHydro. Armenia's second largest hydropower plant is the Vorotan Cascade, located in the Syunik region. The Vorotan Cascade was built between 1970 and 1989 and maintains three stations with an installed capacity of 404 MW. The Vorotan Cascade was sold by the Government in February 2015 to ContourGlobal Hydro Cascade CJSC. As of July 2019, there are also 187 commercial size small hydropower plants operating in Armenia (with a total installed capacity of approximately 370 MW), as well as numerous micro size units that are operated by individuals for personal use. Plans have been developed for the construction of the 100 MW Meghri Hydropower Plant on the Araks River bordering Iran.

As of January 2019, electricity is also generated by three wind power plants with about total 2.9 MW installed capacity, while two wind power plants with about 5.3 MW capacity are under construction. In December 2016, the Government approved plans to construct the utility-scale Masrik-1 solar, photovoltaic power plant with 50-55 MW capacity in the Gegharkunik region to be followed by the construction of further five photovoltaic plants with about 120 MW total capacity.

Total electricity generation increased by 6.1% in 2017 and remained flat in 2018. Apart from domestic usage, Armenia exports electricity to Georgia and Iran. In 2007, Armenia and Iran entered into a 20-year barter arrangement, under which the Government-owned Yerevan Thermal Power Station delivers electricity to the state-owned National Iranian Gas Company in exchange for natural gas. Armenia generally uses the gas for its own domestic needs – especially heating – in the winter months and provides more electricity generated by the use of the supplied gas to Iran during the summer months. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with the Islamic Republic of Iran*."

Armenia's electricity transmission grid consists of over 1,300 kilometres of 220 kV lines and over 3,100 kilometres of 110 kV lines. One 220 kV line connects Armenia with Georgia, and two 220 kV lines connect Armenia with Iran, with two new 400 kV lines to Iran and Georgia currently under construction and expected to be completed in 2020. Armenia's electricity distribution network is currently owned by CJSC Tashir Capital (approx. 70%), which is a Russian conglomerate of industrial and construction companies, and Liormand Holdings Limited (approx. 30%). Electricity tariffs are regulated by the Armenian Public Services Regulatory Commission. The tariff for electricity exports is not regulated. The calculation of tariffs is based on the principle of the revenue requirement, according to which the required revenue must be sufficient to cover proper expenses and depreciation while also provide reasonable profit in the course of the licensed activity. The main factors affecting the rates for electricity sold to consumers are the structure of generation and consumption, depreciation and profit calculated on the base of new capital investments, inclusion of interest payment and repayment of principal amount of loans supported under the guarantee of the Government of Armenia, as well as changes in foreign currency exchange rate and other expense items. As a result of these factors, rates have fluctuated over the years. In particular, from 1 August 2015 the rates for electricity sold to consumers increased by 6.93 AMD/kWh including VAT (with partial subsidy mechanism applied), and then from 1 August 2016 the rates were decreased by 2.58 AMD/kWh (including VAT). Beginning from 1 February 2017, the rates were decreased by 6.2 AMD/kWh (including VAT) for socially vulnerable category of residential customers and by 1.22 AMD/kWh (including VAT) for other consumers. Starting from 1 February 2019, the rate for the socially vulnerable consumers was further decreased by 10.01 AMD/kWh (including VAT)

Armenia's energy sector faces three significant challenges going forward. It will need approximately 500 MW of new generating capacity by 2020 as obsolete infrastructure is taken off-line and demand continues to grow. It will need to preserve energy supplies and avoid supply interruptions as it is dependent on imports for all of its transport fuel and heating/cooking fuel as well as a substantial share of fuel for electricity. It will also need to ensure that energy remains affordable for the population in the face of rising gas and electricity prices and the development of new, potentially more expensive, generating units. To meet these challenges, Armenia works closely with international organisations and other governments to implement projects designed to improve energy efficiency and promote increasing use of renewable energy supplies.

### *Petroleum Products and Natural Gas*

Armenia has no proven reserves of oil or natural gas, nor does it have a refinery to refine crude oil. The following table sets forth Armenia's imports of petroleum products and gas by source for the years indicated:

**Petroleum Products and Gas Imports**

| | For the year ended 31 December | | | | | For the first six months ended 30 June | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2018 | 2019 |
| | *(thousands of tonnes)* | | | | | | |
| **Petroleum Products** | | | | | | | |
| Russia | 223.5 | 217.7 | 230.5 | 235.7 | 210.5 | n/a | n/a |
| Iraq | 27.6 | 0.6 | 0.1 | - | - | n/a | n/a |
| Israel | 26.3 | 3.4 | 0.8 | 0.6 | 0.3 | n/a | n/a |
| Romania | 22.8 | 10.5 | 11 | 1.8 | 2 | n/a | n/a |
| Bulgaria | 5.3 | 13.2 | 25.6 | 26.1 | 19.7 | n/a | n/a |
| Turkmenistan | 0.6 | - | 10.3 | 13.4 | 29.7 | n/a | n/a |
| Greece | - | 6.3 | 8.6 | 47.6 | 56.8 | n/a | n/a |
| Other countries | 19 | 46.2 | 31.3 | 1.2 | 11.3 | n/a | n/a |
| **Total** | **325.1** | **297.9** | **318.2** | **346.1** | **330.3** | **n/a** | **n/a** |
| | *(millions of cubic metres)* | | | | | | |
| **Gas** | | | | | | | |
| Russia | 2,012.0 | 1,920,0 | 1,865.0 | 1,996.0 | 1,940 | 940.0 | 1.016.0 |
| Iran | 389.0 | 371.0 | 372.0 | 383.0 | 524.0 | 223.0 | 188.0 |
| **Total** | **2,401.0** | **2,291.0** | **2,237.0** | **2,379.0** | **2,464.0** | **1,163.0** | **1,239.0** |

Note:

n/a = not available

*Source*: Armstat.

Russia is Armenia's principal supplier of natural gas. In 2018, Russia accounted for approximately 78.7% of Armenia's gas supply, down from nearly 100% in 2008 and 2009. Beginning in 2010, Iran has become an increasingly important source of gas for Armenia. In 2016, 2017 and 2018, Iran accounted for approximately 16.6%, 16.1% and 21.3%, respectively, of Armenia's gas supplies. Russia supplies gas to Armenia by means of a single pipeline that transits through Georgia. Iran supplies gas to Armenia by means of a single gas pipeline, which came on line in 2009 and within Armenia is owned by the Armenian High Voltage Network Company. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with the Islamic Republic of Iran*."

Gas imports from Russia are provided by Gazprom Export (a subsidiary of Gazprom, Russia's national gas company), which sells the gas to its subsidiary Gazprom Armenia. Pursuant to the Gas Price Agreement of December 2013, a new base price of U.S.$189 per 1,000 cubic metres (effective January 2014) was set, reflecting non-application of a Russian 30% customs tax (one of the principal benefits of Armenia's accession to the EEU). The sales price is subject to adjustment for changes in the domestic gas price in the Orenburg region of Russia and U.S CPI. The Gas Price Agreement was further amended cutting the gas price to U.S.$165 per 1,000 cubic metres (from 1 January 2015 to 31 March 2015), and then to U.S.$150 per 1,000 cubic metres (from 1 April 2015 to 31 December 2018), and returning to U.S.$165 per 1,000 cubic metres (from 1 January 2019 to 31 December 2019). See "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*."

Gazprom Armenia sells gas to end-consumers in Armenia at tariff rates established by the Armenian Public Services Regulatory Commission. In 2019, the tariff price for natural gas for consumers was U.S.$290/1,000 cubic metres.

Iran supplies gas to Armenia pursuant to a 20-year barter arrangement in exchange for electricity supplies. See "*—Electricity*" and "*Risk Factors—Risk Factors Relating to Armenia—Relations with the Islamic Republic of Iran*."

As Armenia has no oil refining capacity, it does not import crude oil. Russia is Armenia's largest supplier of petroleum products, accounting for 63.7% of Armenia's petroleum products' imports in 2018 (again reflecting the lack of tariffs within the EEU). Armenia also receives substantial supplies of petroleum products from Greece, Turkmenistan and Bulgaria.

**Privatisation**

Armenia completed a substantial part of its privatisation programme in the 1990s. To date, over 2,000 enterprises have been privatised, including nearly all of the enterprises operating in the trade, services, banking and industry sectors. Privatisation can be carried out by means of a public offer, such as an auction or tender, or by direct sale, with public offers accounting for most privatisations (by number of sales).

Some of the key privatisations in recent years include the following:

- the Zangezur Copper and Molybdenum Combine in 2004 for U.S.$132 million (see "*—Principal Sectors of the Economy—Mining and Quarrying*");

- the telecommunications company Armentel in 1997 for U.S.$73.1 million (see "*—Principal Sectors of the Economy—Information and Communications*"); and

- the Yerevan Brandy Factory in 1997 for U.S.$30.0 million.

Between 2014 and 2018, Armenia generated approximately U.S.$1 million in privatisation receipts. As of 1 January 2019, there were 35 enterprises on the Government's privatisation list. The principal remaining state-owned assets that the Government intends to privatise include enterprises in the health and scientific sectors.

The primary strategic goals of Armenia's privatisation programme include the following:

- generate revenues for the State Budget (as defined herein);

- promote market competition and exports;

- invest in state-owned assets, including real estate, in preparation for future sale; and

- create jobs and reduce poverty.

**Environment**

Armenia's natural resources include its land, forests, water, subsoil resources and air. Armenia occupies approximately 2,974.3 thousand hectares of land, of which approximately 2,043.8 thousand hectares are agricultural land and 334.1 thousand hectares are forested land. Armenia currently operates four national parks and three nature reserves. In total, specially protected areas cover 13.1% of Armenia's total territory.

Primary responsibility over environmental protection in Armenia rests with the Ministry of Environment. The Ministry of Environment collaborates with other Governmental ministries handling environmental issues and maintains close relationships with environmental protection agencies worldwide. The Government receives assistance within the framework of multilateral and bilateral cooperation and from private donors for the implementation of projects designed to remediate, protect and make sustainable use of Armenia's natural resources.

In addition to its core departments, the Ministry of Environment also oversees three separate agencies that have specific mandates with respect to environmental protection: (i) the Bio-Resource Management Agency, which provides services in the fields servicing biodiversity conservation and resource management; (ii) the Waste and Atmosphere Emissions Management Agency, which enforces waste and emission quotas for legal entities and individuals and maintains the national registry of waste disposal sites; and (iii) the Water Resource Management Agency, which regulates water management and monitors the overall supply and demand of the country's water resources.

Armenia is a party to a number of the UN treaties on the environment, including 11 protocols and 12 multilateral conventions as of 31 July 2019. Armenia ratified the UN Framework Convention on Climate Change (the "**UNFCCC**") in 1993, the Kyoto Protocol to the UNFCCC in 2003 and the Paris Agreement in 2017. Armenia is associated with the Copenhagen Accord, which the Conference of Parties to the UNFCCC took note of in 2009. Armenia joined the Kyoto Protocol as a "Non-Annex 1" party, which means that

Armenia, while committed to reducing emissions, is not subject to binding emissions targets. Armenia endorses the continuation of the Kyoto Protocol.

Environmental protection in Armenia is mainly financed out of the State Budget. There are various ongoing environmental projects in Armenia that are being financed by private enterprises, international organisations, donors and governments, including projects related to renewable energy, reforestation, biodiversity protection, water and waste management and energy conservation. Since 2014, the international community has disbursed approximately U.S.$50.0 million in funds for projects related to the environment that were implemented by the Ministry of Environment. In 2018, approximately U.S.$8.25 million of funds from the State Budget were spent on environmental protection measures. Armenia's mining industry generates tailings and other waste rock and materials, which may cause damage to the environment if not properly disposed of.

The table below sets forth certain information concerning the protection of Armenia's environment for the years indicated:

**Certain Environmental Indicators**

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017[(1)]** |
| **Discharges** | | | | |
| Waste water discharge (mln. cubic metres) | 846 | 811 | 770 | 551 |
| Hazardous atmospheric emissions (thousand tonnes), *of which* | 270.9 | 268.7 | 276.7 | 291.1 |
| Emissions from stationary sources | 128.4 | 128.9 | 131.8 | 141.3 |
| Emissions from vehicles | 142.5 | 139.8 | 144.9 | 149.8 |
| **Payments** | | | | |
| For protection of the environment (AMD millions), *of which* | 1430.4 | 1215.4 | 1043.0 | 1087.3 |
| Harmful discharge into water bodies and sewage | 222.0 | 222.5 | 201.5 | 181.0 |
| Emissions from stationary sources | 131.2 | 212.7 | 218.5 | 375.7 |
| For use of natural resources (AMD millions)[(1)] | 1539.4 | 1806.4 | 1437.4 | 1125.6 |
| **Total** | **2969.8** | **3021.8** | **2480.4** | **2212.8** |

Note:

(1) Information for 2018 is not yet available.

*Source:* Armstat.

## Labour and Social Policy

### *Wages*

The following tables set forth key figures on wages for the years indicated.

**Wages**

| | For the year ended 31 December | | | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018[(3)]** | **2018[(3)]** | **2019[(3)]** |
| | | | | *(period average)* | | | |
| Average monthly nominal wage (AMD) | 158,580.0 | 171,615.0 | 174,445.0 | 177,817.0 | 172,727.0 | 167,463.0 | 176,783.0 |
| Average monthly nominal wage (U.S.$)[(1)] | 381.3 | 359.1 | 363.1 | 368.4 | 357.6 | 347.4 | 365.1 |
| Average monthly real wage (AMD)[(1)(2)] | 153,961.0 | 165,492 | 176,922.0 | 176,056.0 | 168,514.0 | 163,538.1 | 173,317.0 |
| **Average monthly nominal wage (AMD) by sector** | | | | | | | |
| Public sector | 146,595.0 | 160,522.0 | 157,331.0 | 158,155.0 | 149,188.0 | 140,640.0 | 149,622.0 |
| Private sector | 172,073.0 | 184,416.0 | 191,901.0 | 195,425.0 | 186,254.0 | 183,922.0 | 191,070.0 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Agriculture, forestry and fishing | 99,897.0 | 113,126.0 | 115,092.0 | 120,530.0 | 118,090.0 | n/a | n/a |
| Industry | 181,862.0 | 194,122.0 | 210,673.0 | 199,460.0 | 205,337 | n/a | n/a |
| Construction | 179,311.0 | 203,537.0 | 179,163.0 | 179,935.0 | 185,007.0 | n/a | n/a |
| Services | 153,402.0 | 166,309.0 | 167,234.0 | 158,434.0 | 165,420.0 | n/a | n/a |

Notes:

n/a = not available.

(1) Calculated using the average AMD/U.S.$ exchange rate for the relevant period. See "*Exchange Rates*."

(2) Average monthly real wage is the average monthly nominal wage divided by the consumer price index for the relevant period.

(3) The levels of wages following 1 January 2018 are not comparable with levels of wages in the previous periods, as since 1 January 2018 the Armstat has been applying a new methodology for the average wage calculation using the database of records on individual income tax and social security tax payments.

*Sources:* Armstat; Ministry of Finance.

The average monthly wage in Armenia (as well as average monthly nominal wage in dollar terms) trended upwards in 2015-2017. Figures for 2018 and 2019 are not comparable with prior years due to a change in methodology. In the first half of 2019, compared to the first half of 2018, the average monthly nominal wage in Armenia increased by 5.6% and the average monthly real wage which grew by 5.9%.

The minimum monthly wage remains low in Armenia compared to the level of average monthly wages. In 2018, the minimum wage was AMD55,000, or 31.8% of average nominal wages. For 2019, the minimum monthly wage remains AMD55,000. At a meeting on 27 June 2019, the Government approved a draft "Law on Making Amendments to the Law "On Minimum Monthly Wage,"" which if adopted by the National Assembly would increase the minimum monthly wage to 68,000 AMD. The justification for setting such amount of minimum monthly wage is provided in the Report on "Estimation of the Consonant Amount of Minimum Wage in the Republic of Armenia," prepared by the National Institute of Labour and Social Research under the Ministry of Labour and Social Affairs in June 2019.

***Employment***

The following table sets forth key employment statistics for the periods indicated:

**Employment Indicators(1)**

| | For the year ended 31 December | | | | | For the three months ended(7) | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | *(thousands of people, unless otherwise indicated)* | | | | | | |
| Total population(1) | 3,010.6 | 2,998.6 | 2,986.1 | 2,972.7 | 2,965.3 | 2,971.3 | 2,963.7 |
| Labour force(2) | 1,375.7 | 1,316.4 | 1,226.3 | 1,230.7 | 1,282.2 | 1,132.3 | 1,158.9 |
| Employed persons(3) | 1,133.5 | 1,072.6 | 1,006.2 | 1,011.7 | 1,073.8 | 894.8 | 905.3 |
| *Employers* | 16.0 | 9.7 | 10.5 | 12.3 | n/a | n/a | n/a |
| *Employee* | 632.9 | 613.5 | 584.0 | 603.3 | n/a | n/a | n/a |
| *Self-employed* | 398.0 | 370.5 | 351.2 | 372.2 | n/a | n/a | n/a |
| Unemployed persons(4) | 242.1 | 243.7 | 220.2 | 219.0 | 208.4 | 237.6 | 253.6 |
| Unemployment rate (%)(5) | 17.6 | 18.5 | 18.0 | 17.8 | 16.3 | 21.0 | 21.9 |
| Activity rate (%)(6) | 63.1 | 62.5 | 61.0 | 60.9 | 63.6 | 55.7 | 56.1 |
| **Employed persons by sector** | | | | | | | |
| Private sector(7) | 883.1 | 812.3 | 762.1 | 764.2 | n/a | n/a | n/a |
| Public sector(7) | 250.4 | 260.3 | 244.1 | 247.6 | n/a | n/a | n/a |
| Agriculture, forestry and fishing | 394.8 | 379.0 | 338.1 | 317.1 | n/a | n/a | n/a |
| Industry | 131.0 | 120.7 | 121.4 | 132.9 | n/a | n/a | n/a |
| Construction | 58.6 | 49.9 | 37.5 | 37.1 | n/a | n/a | n/a |
| Services | 549.2 | 523.2 | 509.4 | 524.6 | n/a | n/a | n/a |

Notes:

n/a = not available.

(1) Figures in this table are presented on an average basis for each period, except for total population, for which numbers are presented as of the end of each period.

(2) Labour force includes all employed and unemployed persons.
(3) Employed persons refer to persons who are (i) between the ages of 15 and 75; (ii) working on a paid-basis, are self-employed or are engaged in household or farming activities, provided that production from such household or farming activities comprised a significant share of household consumption. Unemployed persons include those who are temporarily absent from work for various reasons.
(4) Unemployed persons refer to persons who are (i) between the ages of 15 and 75; (ii) not eligible under Armenian law to receive a pension; (iii) without work or gainful employment; (iv) capable and willing to work within two weeks; (v) registered in the employment register; and (vi) actively seeking employment.
(5) Unemployed persons as a percentage of the labour force.
(6) Labour force as a percentage of the population between the ages of 15 and 75.
(7) For the first quarter of 2018 and 2019 labour market data is presented according to the revised methodology, which considers employment as income-generating work for others.

*Source:* Armstat.

*Unemployment*

The unemployment rate in Armenia remains relatively high. In 2016, the unemployment rate fell to 18.0%, which is largely attributable to emigration of labour force. In 2017, the unemployment rate declined to 17.8%, aided by a real GDP growth rate of 7.5%. In 2018, the unemployment rate further declined to 16.3%, reflecting real GDP grew by 5.2%.

Although the growth in real GDP amounted to 7.1% in the first quarter of 2019, the unemployment rate increased to 21.9%, compared to 21.0% in the three months ended 31 March 2018. The increase of the unemployment rate in the first three months of 2018 and 2019 in the context of the real GDP growth is largely attributable to increased immigration into Armenia and an increase in the number of persons working in production of goods for self-consumption (such persons are not considered employed).

*Employment*

The services sector is the leading source of employment in Armenia, which in 2017 employed 51.9% of Armenia's workforce followed by agriculture at 31.3% with a significant share of the labour force employed in industry (13.1%) and construction (3.7%).

The Law on Employment entered into force on 1 January 2014, which introduced a new model of employment policy with exclusively active targeted programmes aimed at ensuring sustainable employment for the unemployed, including especially those who are uncompetitive in the labour market. Under the new model of employment policy, there are 14 active state regulation programmes aimed at ensuring employment of young people, especially of young women, job placement of people with disabilities through employment adjustment assistance, partial salary compensation and financial support for the accompanying person; assistance to persons, uncompetitive in the labour market for small entrepreneurship activities, acquisition of job skills and abilities through providing the employer with lump sum compensation; organization of vocational training courses, support to rural economy through promotion of seasonal employment.

***Social Insurance System***

*Poverty Assessment*

Since 1996, Armenia has relied on the Integrated Living Conditions Survey ("**ILC Survey**") to gather information on the living conditions of households. With assistance from the World Bank, Armenia has taken steps to improve the ways in which it collects statistical information and over time has expanded the sample size of its ILC Surveys. Since 2001, the ILC Surveys have been administered on an annual basis.

Consumption aggregate is used to evaluate the level of well-being in Armenia. A consumption aggregate comprised of both food and non-food baskets as well as an estimated rental value of durables is an important tool for measuring poverty because consumption is considered to be more accurately declared and less sensitive to changes than income. Based on the consumption approach, Armenia has established three poverty lines: an upper poverty line, a lower poverty line and an extreme (or food) poverty line. Those whose monthly consumption is below the upper poverty line are deemed "poor;" those whose consumption is below the lower poverty line are deemed "very poor;" and those whose monthly consumption levels are below the food poverty line are classified as "extremely poor."

The table below sets forth certain information about Armenia's poverty levels for the years indicated:

### Poverty Indicators

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 |
| **Poverty lines**[(1)] | | | | |
| Extreme (or food) poverty line (monthly consumption, AMD) | 23,384.0 | 24,109.0 | 23,313.0 | 24,269.0 |
| Upper poverty line (monthly consumption, AMD) | 40,264.0 | 41,698.0 | 40,867.0 | 41,612.0 |
| **Average monthly consumption per capita of all households (AMD)** | **40,770.0** | **42,867.0** | **43,978.0** | **44,413.0** |
| **Poverty levels** | | | | |
| Extremely poor (% of households) | 2.3 | 2.0 | 1.8 | 1.4 |
| Very poor (% of households) | 10.9 | 10.4 | 9.8 | 10.6 |
| Poor (% of households) | 30.0 | 29.8 | 29.4. | 25.7 |
| Poverty gap (%)[(2)] | 4.5 | 4.7 | 4.3 | 4.4 |

Notes:

(1) Poverty lines are based on average annual prices (both urban and rural) from the ILC Survey.

(2) Poverty gap indicates, in percentage terms, the extent to which the average consumption of the poor falls short of the poverty line.

*Source:* Armstat.

Accordingly, from 2014 to 2017, the share of Armenian households classified as poor decreased by 14.3% and the share of Armenian households classified as extremely poor fell by 39.1%. Reducing poverty remains a priority for the Government.

*Poverty Alleviation*

Under the Law on Benefits, which was passed in October 2005, families classified as poor or extremely poor are entitled to receive a poverty family benefit or lump-sum financial assistance. Poverty benefits are paid out of the State Budget and are classified as social transfers within the expenditure ledger of the State Budget.

The table below sets forth certain information regarding Armenia's poverty alleviation benefits for the years indicated:

### Poverty Alleviation Benefits

| | As of the year ended 31 December | | | |
|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 |
| **Total number of families receiving benefits** | **115,035.0** | **116,883.0** | **111,806.0** | **105,564.0** |
| Number receiving family and social benefit | 105,176.0 | 106,371.0 | 106,431.0 | 100,288.0 |
| Number receiving quarterly emergency benefits | 9,859.0 | 10,512.0 | 5,375.0 | 5,276.0 |
| **Average size of monthly benefit per family (AMD)** | **30,350.0** | **30,350.0** | **31,350.0** | **31,350.0** |

*Source:* Armstat.

*Health Insurance*

There is currently no system for mandatory health insurance in Armenia, but a "Concept for Universal Health Insurance" to address health insurance policy, rights and obligations of payments and other important health care issues is under active development and expected to be submitted to the Government by the Ministry of Health and other relevant public agencies this year.

*Student Support*

Under the Decree of the Prime Minister dated 14 April 1999, certain categories of students are entitled to grants from the State Budget. The table below sets forth certain information regarding student subsidies for the years indicated:

**Student Subsidies**

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** |
| **Minimum size of monthly grants (AMD/month)** | | | | | |
| For students of higher education | 5,000 | 5,000 | 5,000 | 5,000 | n/a |
| For students at certain specialised secondary schools | 4,750 | 4,750 | 4,750 | 4,750 | n/a |
| For post-graduate students[(1)] | 20,000 | 20,000 | 20,000 | 20,000 | n/a |

Note:

n/a = not available

(1) Students who have discontinued employment to return for post-graduate work at scientific, research and other academic institutions.

*Source:* Armstat.

In February 2015, the Government put into place a tuition fee cap that regulates maximum tuition fees at institutions of higher education. Such caps apply regardless of course of study or whether the student is enrolled full time or part time or as a distance learner.

***Pensions and Disability***

The basic eligibility criteria for state pensions are as follows: (i) reaching the retirement age (63 years for both men and women with insurance records and 65 years for those without insurance records) and non-employees at the age of 65); (ii) disability; (iii) the death of a household's primary provider; (iv) long service; or (v) employment under particularly hazardous and heavy conditions.

Armenia launched a new mandatory funded pension in January 2014. Armenia's pension system (the "**Pension System**") currently consists of two components: the State pension (the "**State Pension**") and the funded pension (the "**Funded Pension**").

*State Pension*

The State Pension is composed of a fixed amount (the "**Basic Component**") and a variable component which is largely based on the length of employment (the "**Labour Component**"). The Basic Component is set by law and is modified on an annual basis by the National Assembly. The Labour Component is the multiplication of the beneficiary's years of service, an applicable annual service value and a personal coefficient. Since 1 January 2019, the amount of the Labour Component cannot be less than the minimum level set by the Government (AMD25,500). The State Pension is funded by social contributions made by employers and employees. Since 1 January 2005, these social contributions are made directly to the State Revenue Committee rather than to a separate pension fund.

*Funded Pension*

The Funded Pension, which consists of funds accumulated in a pensioner's individual pension account, has two components: the voluntary pillar (the "**Voluntary Pillar**") and the mandatory pillar (the "**Mandatory Pillar**"). Anyone, regardless of age, may contribute to the Funded Pension through the Voluntary Pillar, and an individual who is required to make funded pension contributions under the Mandatory Pillar may also make voluntary funded contributions in excess of the amounts regulated under the Mandatory Pillar.

Under the Mandatory Pillar, those born on or after 1 January 1974 must contribute a percentage of their salary to their private individual pension account, with a matching Government contribution, as described below. Those who were born before 1 January 1974 may also choose to contribute to the Mandatory Pillar by selecting a pension fund (such choice is irrevocable), while also maintaining his/her pension rights under the pay-as-you-go system.

Individuals have the ability to choose the pension fund or fund manager for the management of their funded contributions. They also have the ability to change pension funds or fund managers and may invest in more than one fund. Currently, there are three private fund managers, of which one – Capital Asset Management – manages voluntary contributions and two – Amundi-Acba Asset Management CJSC and C-Quadrat Ampega Asset Management Armenia LLC – manage mandatory contributions. Should an individual fail to choose a fund, his pension contributions are directed to a conservative fund of a manager randomly selected by computer. Private pension funds and fund managers may invest pension savings in a variety of assets permitted by law, including securities of Armenian public and private issuers.

In 2013, the Government introduced several reforms in an effort to make the Pension System more efficient and transparent. It completed the integration of the personal income tax and social contributions regimes, as well as the roll-out of a new electronic system for individual accounting of personal income tax payments and pension contributions. The Government has also taken steps to integrate and streamline the work of agencies that provide services to pensioners or otherwise disburse social payments.

In July 2018, when the pension system became mandatory for all individuals born in 1974 and later, the total contribution was set at 10% of the monthly income of an individual up to a cap of AMD 500,000 of monthly income, with such contribution being made 2.5% by the individual (thus up to a maximum of AMD 12,500) and 7.5% by the state (thus up to a maximum of AMD 37,500). Over the next four years, these allocations will shift so that in 2023 the contribution being made by the individual is 5% and the contribution being made by the state is likewise 5%. Furthermore, from July 2020, the AMD500,000 cap will be replaced by a cap equal to 15 times the monthly minimum wage (which is currently AMD55,000) while the state's contribution will be capped in 2023 at AMD25,000 (with the result that individuals may then be making more than a 5% contribution).

The following table sets forth certain statistics concerning the Pension System:

**Pension Benefits**

| | As of or for the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** |
| Total number of pensioners (in thousands, as of year-end) ... | 463.2 | 465.8 | 468.5 | 458.2 | 460.5 |
| Minimum (basic pension) monthly payment from State Pension (AMD, for each period) .......................................... | 14,000.0 | 16,000.0 | 16,000.0 | 16,000.0 | 16,000.0 |
| Average size of monthly pensions (AMD, for each period) .. | 35,813.0 | 40,441.0 | 40,397.0 | 40,634.0 | 40,113.6 |

*Source:* Armstat.

## EXTERNAL SECTOR

### Balance of Payments

The following table sets forth the balance of payments of Armenia for the periods indicated:

**Balance of Payments of Armenia in Dollars**[(1)(2)]

| | For the year ended 31 December | | | | | For the three months ended 31 March | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2018 | 2019[(3)] |
| | (U.S.$ millions) | | | | | | |
| **Current account** | (901.8) | (287.1) | (217.4) | (344.4) | (1,165.3) | (227.2) | (277.3) |
| **Goods and services** | (2,168.9) | (1,281.8) | (1,015.9) | (1,411.6) | (1,946.9) | (329.7) | (366.6) |
| Export | 3,318.3 | 3,136.4 | 3,500.8 | 4,311.6 | 4,700.3 | 1,078.3 | 1,018.6 |
| Import | 5,487.3 | 4,418.2 | 4,516.7 | 5,723.2 | 6,647.3 | 1,408.0 | 1,385.3 |
| *Goods* | (2,055.4) | (1,186.4) | (944.9) | (1,376.1) | (1,789.1) | (343.3) | (365.7) |
| Export | 1,698.1 | 1,623.9 | 1,890.7 | 2,385.2 | 2,630.4 | 642.2 | 592.0 |
| Import | 3,753.6 | 2,810.3 | 2,835.6 | 3,761.3 | 4,419.5 | 985.5 | 957.7 |
| *Services* | (113.5) | (95.4) | (71.0) | (35.6) | (157.8) | 13.6 | (0.9) |
| Export | 1,620.2 | 1,512.5 | 1,610.1 | 1,926.3 | 2,069.9 | 436.1 | 426.6 |
| Import | 1,733.7 | 1,607.9 | 1,681.1 | 1,961.9 | 2,227.7 | 422.5 | 427.6 |
| **Investment income and employee compensation** | 522.2 | 428.4 | 245.2 | 407.4 | 161.2 | (53.3) | (51.0) |
| Received | 1,212.9 | 885.9 | 846.6 | 1,017.4 | 910.1 | 136.9 | 130.1 |
| Paid | 690.7 | 457.5 | 601.5 | 610.0 | 748.9 | 190.2 | 181.1 |
| *Employee compensation*[(4)] | 975.4 | 661.7 | 597.3 | 682.8 | 656.8 | 72.6 | 70.7 |
| Received | 1,168.9 | 842.4 | 773.7 | 858.1 | 822.3 | 112.0 | 108.6 |
| Paid | 193.5 | 180.6 | 176.4 | 175.4 | 165.5 | 39.4 | 37.9 |
| *Investment income*[(5)] | (453.2) | (233.3) | (352.1) | (275.4) | (495.6) | (125.9) | (121.7) |
| Received | 44.0 | 43.6 | 72.9 | 159.3 | 87.8 | 24.9 | 21.5 |
| Paid | 497.2 | 276.9 | 425.0 | 434.7 | 583.4 | 150.8 | 143.2 |
| **Current transfers**[(6)] | 744.9 | 566.3 | 553.4 | 659.8 | 620.5 | 155.8 | 140.3 |
| Received | 1,057.2 | 904.1 | 882.9 | 1,031.0 | 992.0 | 232.2 | 218.7 |
| Paid | 312.3 | 337.7 | 329.5 | 371.1 | 371.5 | 76.4 | 78.4 |
| **Capital account** | 70.4 | 65.3 | 34.9 | 46.3 | 125.0 | 19.5 | 5.4 |
| Capital transfers[(7)] | 70.4 | 65.3 | 34.9 | 46.3 | 125.0 | 19.5 | 5.4 |
| Received | 85.9 | 78.3 | 45.8 | 53.9 | 134.8 | 21.6 | 9.2 |
| Paid | 15.4 | 13.0 | 10.9 | 7.6 | 9.8 | 2.1 | 3.9 |
| **Financial account** | (837.4) | (345.9) | (417.2) | (526.0) | (684.8) | (235.6) | (239.9) |
| Direct investment[(8)] | (377.8) | (155.4) | (263.2) | (221.9) | (247.1) | (116.9) | (26.8) |
| Assets | 28.8 | 28.8 | 70.5 | 29.1 | 7.0 | (22.4) | 7.6 |
| Liabilities | 406.6 | 184.1 | 333.7 | 250.9 | 254.1 | 94.4 | 34.4 |
| Portfolio investment[(9)] | 38.4 | (235.4) | (33.9) | 87.3 | 33.0 | 0.2 | 38.8 |
| Assets | 6.0 | 19.4 | 23.1 | 30.6 | 14.1 | (11.6) | 19.6 |
| Liabilities | (32.3) | 254.8 | 56.9 | (56.8) | (18.9) | (11.9) | (19.2) |
| Financial derivatives (other than reserves) and employee stock options | 1.2 | (1.7) | 1.3 | (0.9) | 0.6 | 0.5 | 1.9 |
| Other investment[(10)] | 160.4 | (286.0) | (576.1) | (440.3) | (434.9) | (18.1) | (158.4) |
| *Assets* | 409.3 | 83.1 | 245.4 | (233.0) | 137.3 | 112.5 | 61.5 |
| Other equity | 2.2 | 1.7 | 1.1 | 4.3 | 2.0 | 1.5 | 1.3 |
| Currency and deposits | 180.4 | 18.1 | (243.4) | (49.0) | 65.1 | 85.9 | 36.9 |
| Trade credits | 58.0 | (17.8) | 37.8 | (27.1) | (2.2) | (3.1) | 16.1 |
| Loans extended | 153.5 | 82.0 | 454.8 | (168.2) | 79.9 | 31.2 | 4.6 |
| Insurance, pension and standardised guarantee schemes | 0.4 | 0.2 | 1.0 | 0.7 | 1.2 | (0.7) | 2.3 |
| Other assets | 14.9 | (1.1) | (5.9) | 6.2 | (8.7) | (2.3) | 0.3 |
| *Liabilities* | 249.0 | 369.2 | 821.4 | 207.3 | 572.1 | 130.6 | 219.9 |
| Other equity | - | - | - | - | - | - | - |
| Currency and deposits | (256.9) | 53.4 | 285.6 | (218.8) | 372.8 | 75.5 | 115.1 |
| Trade credits | 7.6 | 20.8 | 23.7 | 9.2 | 13.2 | 14.6 | 4.5 |
| Loans extended | 7.6 | 20.8 | 23.7 | 9.2 | 13.2 | 14.6 | 4.5 |
| Insurance, pension and standardised guarantee schemes | 0.2 | 0.7 | 0.8 | 1.3 | 1.1 | 0.4 | 0.5 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Other assets.............................. | 5.6 | (9.1) | (7.4) | 0.6 | 35.1 | 4.5 | (4.7) |
| Special drawing rights (net incurrence of liabilities) .......... | - | - | - | 0.1 | 0.1 | - | - |
| Change in reserve assets (increase) | (659.6) | 332.6 | 454.6 | 49.8 | (36.4) | (101.4) | (95.4) |
| **Net errors and omissions** ............ | (6.0) | (124.1) | (234.7) | (227.9) | 355.5 | (27.9) | 32.1 |

Notes:

1) Figures in this table are presented in accordance with the IMF's *Balance of Payments Manual—6th Edition* and are current as of 30 June 2019.
2) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using period-average exchange rates.
3) Data for the first quarter of 2019 is preliminary.
4) Employee compensation reflects wages and other payments received by residents of Armenia who carry out temporary or seasonal work abroad, as well as wages received by residents of Armenia for work at embassies and international organisations in Armenia.
5) Net investment income reflects net income received by residents of Armenia from investments abroad or paid by residents of Armenia for capital attracted from abroad.
6) Current transfers reflect monetary or in-kind transfers from abroad, except for transfers related to fixed assets which are included in capital transfers. Current transfers include both public transfers and transfers by individuals working abroad on a long-term basis to residents of Armenia.
7) Capital transfers comprise transfers received/paid for the acquisition of fixed assets or for construction work, and also include debt forgiveness.
8) Direct investments reflect international investment activities when a resident obtains influence in a company of another country by means of investments. Direct investments in equity and reinvested earnings are included in direct investments.
9) Portfolio investments consist of investments in securities issued by non-residents of Armenia which are otherwise not included under direct investment.
10) Other investments comprise all investments which are not otherwise classified as direct or portfolio investments.

*Source:* CBA.

The following table sets forth certain key figures from Armenia's balance of payments as a percentage of GDP for the periods indicated:

**Key Balance of Payments Figures of Armenia as a Percentage of GDP(1)(2)(3)**

| | For the year ended 31 December | | | | | For the three months ended 31 March | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019(4)** |
| | | | | *(% of GDP)* | | | |
| **Current account**................................ | **(7.77)** | **(2.72)** | **(2.06)** | **(2.99)** | **(9.37)** | **(9.80)** | **(10.88)** |
| Goods and services ........................ | (18.68) | (12.15) | (9.63) | (12.25) | (15.66) | (14.22) | (14.39) |
| Investment income and employee compensation................................. | 4.50 | 4.06 | 2.32 | 3.53 | 1.30 | (2.30) | (2.00) |
| Current transfers............................ | 6.42 | 5.37 | 5.25 | 5.72 | 4.99 | 6.72 | 5.51 |
| **Capital account** ................................ | **0.61** | **0.62** | **0.33** | **0.40** | **1.01** | **0.84** | **0.21** |
| **Financial account**............................. | **(7.21)** | **(3.28)** | **(3.96)** | **(4.56)** | **(5.51)** | **(10.16)** | **(9.41)** |
| Direct investment.......................... | (3.25) | (1.47) | (2.50) | (1.92) | (1.99) | (5.04) | (1.05) |
| Assets .................................... | 0.25 | 0.27 | 0.67 | 0.25 | 0.06 | (0.97) | 0.30 |
| Liabilities .............................. | 3.50 | 1.74 | 3.16 | 2.18 | 2.04 | 4.07 | 1.35 |
| Portfolio investment.................... | 0.33 | (2.23) | (0.32) | 0.76 | 0.27 | 0.01 | 1.52 |
| Assets..................................... | 0.05 | 0.18 | 0.22 | 0.27 | 0.11 | (0.50) | 0.77 |
| Liabilities............................... | (0.28) | 2.41 | 0.54 | (0.49) | (0.15) | (0.51) | (0.75) |
| Other investment............................ | 1.38 | (2.71) | (5.46) | (3.82) | (3.50) | (0.78) | (6.22) |
| Assets..................................... | 3.53 | 0.79 | 2.33 | (2.02) | 1.10 | 4.85 | 2.41 |
| Liabilities............................... | 2.14 | 3.50 | 7.79 | 1.80 | 4.60 | 5.63 | 8.63 |
| Change in reserve assets (increase).. | (5.68) | 3.15 | 4.31 | 0.43 | (0.29) | (4.38) | (3.74) |
| **Net errors and omissions** ................. | **(0.05)** | **(1.18)** | **(2.23)** | **(1.98)** | **2.86** | **(1.20)** | **1.26** |

Notes:

(1) Figures in this table are current as of 30 June 2019.
(2) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using period-average exchange rates.
(3) Calculated as a percentage of Armenia's nominal GDP converted into dollars, using the average AMD/U.S.$ exchange rates for the respective period.
(4) Data for the first quarter of 2019 is preliminary.

*Source:* CBA.

***Current Account***

Between 2014 and 2018 and in the three months ended 31 March 2019, Armenia recorded current account deficits, driven largely by high trade deficits that in turn were caused by the value of imports outpacing the value of exports.

In 2015, compared to 2014, the trade deficit (including services) declined by 40.9%, with contraction recorded in the value of both exports and imports. Both current transfers and the compensation of Armenian employees working abroad fell in 2015 compared to 2014. As a result, the current account deficit declined by 68.1% in 2015. As a share of GDP, the current account deficit declined to 2.7% in 2015 from 7.8% in 2014.

In 2016, compared to 2015, the trade deficit (including services) decreased by 20.7% due to exports increasing at a faster rate than imports: exports of goods and services increased by 11.6% while imports of goods and services increased by 2.2%. As a result, the current account deficit declined by 24.3% in 2016. As a share of GDP, the current account deficit declined to 2.1% in 2016 from 2.7% in 2016, supported also by 5.5% growth in nominal GDP.

In 2017, compared to 2016, the trade deficit (including services) increased by 38.9%. The current account deficit increased in 2017 despite a 14.3% increase in net inflows of employee compensation. As a share of GDP, the current account deficit increased in 2017 to 3.0% from 2.1% in 2016.

In 2018, the trade deficit (including services) increased by 37.9% (by U.S.$535.3 million) compared to 2017 due to imports increasing at a faster rate than exports: exports of goods and services increased by 9.0%, while imports of goods and services increased by 16.1%. The current account deficit increased by 238.3% (by U.S.$820.9 million) in 2018 compared to 2017 mostly due to the higher trade deficit, but also to an 80.0% increase in negative investment income (a decrease of U.S.$220.2 million), as well as a fall in received employee compensation of 4.2% (U.S.$35.8 million) and in received current transfers of 9.6% (U.S.$39 million), both reflecting decline in remittances sent from abroad. As a share of GDP, the current account deficit widened to 9.4% in 2018 compared to 3.0% in 2017.

In the three months ended 31 March 2019, the trade deficit (including services) increased by 11.2% compared to the three months ended 31 March 2018 as exports decreased more rapidly (5.5%) than imports (1.8%). The current account deficit increased by 22.0% in the first three months of 2019 compared to the first three months of 2018 primarily due to the higher trade deficit, but also to a 5.8% decrease in the inbound current transfers. As a share of GDP, the current account deficit increased to 10.9% in the three months ended 31 March 2019 from 9.8% in the three months ended 31 March 2018.

***Capital Account and Financial Account***

The current account deficit is financed mainly by FDI inflows and external borrowing (both public and private).

In 2015, net direct investments (*i.e.*, net FDI) decreased by 58.9% and net other investments rose by 278.3%, compared to 2014.

In 2016, Armenia recorded a 69.4% increase in net direct investments driven by an increase in foreign investment in Armenia which was partially offset by an increase in Armenian investment abroad. Net other investments rose by 101.4% in 2016 mainly as a result of an inflow of capital to commercial banks and an increase of loans extended to the Government together with the value of loans received from abroad increasing by 13.9% compared to 2015.

In 2017, compared to 2016, net direct investments decreased by 15.7% while net other investments decreased by 23.6%. The decrease in net direct investments was driven by a decrease in foreign investments in Armenia which was partially offset by a decrease in Armenian investments abroad. See "—*FDI*." The decline in net other investments was in large part attributable to an outflow of capital from commercial banks.

In 2018, compared to 2017, net direct investments increased by 11.4% (to U.S.$247.1 million in 2018), mainly as a result of lower Armenian investment abroad (to U.S.$7.0 million). See "—*FDI*." Net other investments decreased by 1.2% driven by a decrease in the loans extended to the Government, which was offset by the increase in the inflows of capital to commercial banks.

In the three months ended 31 March 2019, compared to the three months ended 31 March 2018, net direct investments decreased by 77.1% as a result of lower FDIs in Armenia and higher Armenian investments abroad. See "—*FDI*." Armenia recorded net other investment inflows of U.S.$158.4 million in the three months ended 31 March 2019 compared to U.S.$18.1 million of inflow in the three months ended 31 March 2018 on account of an increase in the inflow of capital to commercial banks.

**Remittances**

The following table sets forth the source of net inflows of remittances into Armenia for the years indicated:

**Net Inflow of Remittances**

| | For the year ended 31 December | | | | | For the three months ended 31 March | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2018 | 2019 |
| | *(U.S.$ millions, except percentage)* | | | | | | |
| Inflow | 2,025.9 | 1,430.4 | 1,330.1 | 1,494.6 | 1,452.1 | 261.1 | 253.7 |
| Outflow | 353.5 | 328.5 | 320.5 | 330.6 | 301.0 | 69.9 | 69.4 |
| Net Inflow of Personal Remittances by Balance of Payments | 1,672.5 | 1,101.9 | 1,009.7 | 1,164.0 | 1,151.1 | 191.2 | 184.3 |
| Net remittances/GDP(%)[(1)] | 14.4 | 10.4 | 9.6 | 10.1 | 9.3 | 8.2 | 7.2 |

Note:

(1) Calculated as a percentage of Armenia's nominal GDP in dollars, using the average AMD/U.S.$ exchange rates for the respective period.

*Source:* CBA.

Remittances finance a substantial share of Armenia's trade deficit. Net inflows of remittances to Armenia have generally fluctuated in line with the state of the global economy, and in particular the Russian economy, which is where remittances to Armenia predominantly originate. Net inflow of remittances has historically been an important feature of the Armenian economy, although its share in GDP has been declining with net inflow of remittances accounting for 14.4% of GDP in 2014, 10.4% in 2015, 9.6% in 2016, 10.1% in 2017 and 9.3% in 2018. The CBA expects the share of net money transfers inflows in GDP (and hence, the importance) to decline further.

**International Trade**

Armenia has an open economy, and the value of foreign trade turnover in goods and services represented 91.3% of GDP in 2018. Armenia's principal trading partners are Russia and the EU.

Armenia's trade balance, *i.e.*, the balance between the import and export of goods, has been characterised by a substantial structural deficit, with the country running a simple average annual deficit of 18.5% of GDP from 2014 through 2018. Structural factors affect the nature of Armenia's imports and exports. Armenia is dependent on imports of energy and certain other commodities. Armenia's principal exports are commodities, such as mineral products and metals and particularly copper, which heighten the country's vulnerability to price and demand fluctuations on the world markets, although their significance has also declined during the last year. Armenia is also particularly dependent on the state of the Russian and European economies, as they account for approximately half of the Armenia's overall exports. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*." Armenian exports are also restricted by its geopolitical position. Armenia's borders with Azerbaijan and land border with Turkey remain closed as a consequence of the Nagorno-Karabakh conflict (although Turkish goods flow into Armenia via Georgia). Trading with Iran is limited both by limited transport infrastructure and by U.S. sanctions against Iran. Therefore, Armenia's sole reliable trade route is through Georgia, which increases transportation costs, limits the types of goods that can be exported and hampers competition in the country's export and import sectors. See "*Risk Factors—Risk Factors Relating to Armenia—Limited Routes for Exports*."

Armenia is carrying out steps to develop a more diversified trade portfolio. Russia is expected to remain a significant trade partner of Armenia (consistent with Armenia's participation in the EEU), accounting for 25.1% of the value of imports (by country of origin) and 27.6% of the value of exports in 2018. Armenia also values its trade relationship with the EU, with which it maintains a GSP+ trade regime. See "—*International*

*Trade Agreements*." In 2018, imports from the EU accounted for 23.0% of total imports and exports to the EU accounted for 28.3% of total exports (as measured by value). Armenia is also taking steps to broaden its trade relationships beyond the EU and Russia.

The following table sets forth Armenia's trade balance by value for the years indicated:

**Trade Balance by Value**(1)(2)(3)(4)

| | For the year ended 31 December | | | | | | For the three months ended 31 March | |
|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | *(U.S.$ millions)* | | | | | | | |
| **Trade balance** | (2,907.12) | (2,877.14) | (1,753.91) | (1,481.75) | (1,859.37) | (2,603.11) | (526.56) | (542.75) |
| Imports | 4,385.87 | 4,424.42 | 3,239.24 | 3,273.47 | 4,097.07 | 5,015.54 | 1,120.81 | 1,086.66 |
| Exports | 1,478.75 | 1,547.29 | 1,485.33 | 1,791.72 | 2,237.70 | 2,412.43 | 594.26 | 543.92 |

Notes:

(1) Figures in this table are current as of 5 July 2019.
(2) The trade balance is limited to the import and export of goods, and does not reflect trade in services.
(3) The value of imports is recorded on a CIF (cost, insurance, freight) basis. The value of exports is recorded on an FOB (free on board) basis, *i.e.*, the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.
(4) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using average daily exchange rates.

*Source:* Armstat.

The following table sets forth Armenia's trade balance as a percentage of GDP for the periods indicated:

**Trade Balance by Percentage of GDP**(1)(2)(3)(4)

| | For the year ended 31 December | | | | | For the three months ended 31 March | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | *(% of GDP)* | | | | | | |
| **Trade balance** | (24.78) | (16.62) | (14.05) | (16.13) | (20.94) | (22.71) | (21.30) |
| Imports | 38.11 | 30.69 | 31.04 | 35.54 | 40.34 | 48.34 | 42.64 |
| Exports | 13.33 | 14.07 | 16.99 | 19.41 | 19.40 | 25.63 | 21.35 |

Notes:

(1) Figures in this table are current as of 5 July 2019.
(2) The trade balance is limited to the import and export of goods, and therefore does not reflect trade in services.
(3) The value of imports is recorded on a CIF basis. The value of exports is recorded on an FOB basis, *i.e.*, the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.
(4) Calculated as a percentage of Armenia's nominal GDP converted into dollars, using the average AMD/U.S.$ exchange rate for the respective period.

*Source:* Armstat.

### *Imports*

Armenia's imports primarily comprise mineral products (including natural gas and petroleum products), machinery and equipment, foodstuffs, transport (mainly motor vehicles), chemical products, base metals, textiles/clothing and precious stones and metals.

The following table sets forth the value of Armenia's imports by product category for the years indicated:

**Imports of Goods by Value in Dollars(1)(2)(3)**

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | | | *(U.S.$ millions)* | | |
| Mineral products | 858.5 | 639.3 | 583.6 | 644.9 | 720.7 |
| Machinery and equipment | 598.3 | 413.8 | 468.8 | 628.4 | 934.9 |
| Prepared foodstuffs | 369.8 | 314.9 | 331.7 | 353.1 | 399.8 |
| Chemical products | 351.2 | 303.3 | 328.4 | 406.9 | 394.7 |
| Transport | 347.5 | 191.5 | 160.6 | 247.7 | 362.1 |
| Base metals | 327.5 | 251.4 | 219.3 | 292.0 | 340.6 |
| Precious stones and metals | 302.9 | 118.1 | 161.5 | 233.4 | 288.3 |
| Vegetables | 239.3 | 192.4 | 165.5 | 190.8 | 218.3 |
| Plastics and rubber | 182.9 | 136.5 | 130.0 | 171.7 | 200.1 |
| Textiles/clothing | 171.5 | 164.5 | 224.8 | 263.6 | 318.4 |
| Animals and animal products | 146.5 | 106.1 | 92.9 | 133.7 | 131.9 |
| Miscellaneous manufactured products | 113.8 | 73.4 | 78.0 | 123.2 | 160.1 |
| Stone, plaster and cement | 93.1 | 64.1 | 64.5 | 86.8 | 94.2 |
| Paper products | 76.5 | 66.9 | 64.6 | 77.4 | 141.2 |
| Instruments and devices | 72.3 | 83.4 | 68.2 | 83.6 | 116.7 |
| Wood products | 71.6 | 41.5 | 38.2 | 45.5 | 56.5 |
| Fats and oils | 54.7 | 44.7 | 43.3 | 49.2 | 55.1 |
| Footwear, umbrellas and headgear | 31.2 | 21.9 | 34.7 | 45.7 | 57.2 |
| Leather products | 13.6 | 11.1 | 14.4 | 19.4 | 24.4 |
| Art and antiques | 0.7 | 0.4 | 0.7 | 0.3 | 0.2 |
| **Total** | **4,424.4** | **3,239.2** | **3,273.5** | **4,097.1** | **5,015.5** |

Notes:

(1) Figures in this table are current as of 5 July 2019.

(2) The value of imports is recorded on a CIF basis and reflects goods of foreign manufacture that have been imported for consumption and for re-export. Figures in this table do not reflect unregistered trade volumes.

(3) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using average daily exchange rates.

*Source:* Armstat.

The following table sets forth the value of Armenia's imports, in percentage terms, by product category for the years indicated:

**Imports of Goods by Value in Percentage Terms(1)(2)**

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | | | *(%)* | | |
| Mineral products | 19.4 | 19.7 | 17.8 | 15.7 | 14.4 |
| Machinery and equipment | 13.5 | 12.8 | 14.3 | 15.3 | 18.6 |
| Prepared foodstuffs | 8.4 | 9.7 | 10.1 | 8.6 | 8.0 |
| Transport | 7.9 | 5.9 | 4.9 | 6.0 | 7.2 |
| Chemical products | 7.9 | 9.4 | 10.0 | 9.9 | 7.9 |
| Base metals | 7.4 | 7.8 | 6.7 | 7.1 | 6.8 |
| Precious stones and metals | 6.8 | 3.6 | 4.9 | 5.7 | 5.7 |
| Vegetables | 5.4 | 5.9 | 5.1 | 4.7 | 4.4 |
| Plastics and rubber | 4.1 | 4.2 | 4.0 | 4.2 | 4.0 |
| Textiles/clothing | 3.9 | 5.1 | 6.9 | 6.4 | 6.3 |
| Animals and animal products | 3.3 | 3.3 | 2.8 | 3.3 | 2.6 |
| Miscellaneous manufactured products | 2.6 | 2.3 | 2.4 | 3.0 | 3.2 |
| Stone, plaster and cement | 2.1 | 2.0 | 2.0 | 2.1 | 1.9 |
| Paper products | 1.7 | 2.1 | 2.0 | 1.9 | 2.8 |
| Wood products | 1.6 | 1.3 | 1.2 | 1.1 | 1.1 |
| Instruments and devices | 1.6 | 2.6 | 2.1 | 2.0 | 2.3 |
| Fats and oils | 1.2 | 1.4 | 1.3 | 1.2 | 1.1 |
| Footwear, umbrellas and headgear | 0.7 | 0.7 | 1.1 | 1.1 | 1.1 |
| Leather products | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 |
| Art and antiques | - | - | - | - | - |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Notes:

(1) Figures in this table are current as of 5 July 2019.
(2) The value of imports is recorded on a CIF basis and reflects goods of foreign manufacture that have been imported for consumption and for re-export. Figures in this table do not reflect unregistered trade volumes.

*Source:* Armstat.

In 2017 and 2018, respectively, Russia accounted for 28.6% and 25.1%, the EU 22.1% and 23.0%, and China 11.7% and 13.2%, of Armenia's imports.

The following table sets forth the value of Armenia's imports by country of origin for the years indicated:

**Value of Imports of Goods by Country of Origin in Dollars(1)(2)(3)**

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** |
| | (*U.S.$ millions*) | | | | |
| **Imports from CIS countries and Georgia** | **1,435.0** | **1,163.7** | **1,219.0** | **1,435.8** | **1,563.7** |
| Russia | 1,122.9 | 942.4 | 983.8 | 1,173.2 | 1,259.9 |
| Ukraine | 201.6 | 124.6 | 101.8 | 115.5 | 153.6 |
| Georgia | 71.9 | 66.8 | 98.3 | 88.0 | 70.8 |
| Belarus | 31.0 | 25.7 | 23.3 | 39.1 | 38.6 |
| Turkmenistan | 1.2 | 0.5 | 6.2 | 10.2 | 27.5 |
| Kazakhstan | 0.6 | 0.4 | 0.7 | 4.0 | 3.7 |
| Other CIS countries | 5.8 | 3.3 | 4.9 | 5.7 | 9.6 |
| **Imports from EU** | **1,133.4** | **778.2** | **737.9** | **903.0** | **1,152.1** |
| Germany | 283.3 | 202.1 | 186.4 | 201.2 | 296.9 |
| Italy | 179.6 | 148.5 | 128.8 | 158.0 | 182.6 |
| Belgium | 89.2 | 49.5 | 58.0 | 43.3 | 39.5 |
| France | 79.8 | 65.1 | 53.0 | 73.5 | 110.2 |
| Austria | 72.1 | 16.4 | 17.0 | 21.0 | 28.8 |
| United Kingdom | 55.7 | 26.6 | 27.7 | 34.7 | 39.1 |
| Spain | 50.5 | 26.7 | 25.4 | 35.2 | 36.8 |
| Netherlands | 48.9 | 29.5 | 28.6 | 32.9 | 55.9 |
| Poland | 47.2 | 34.0 | 36.1 | 49.3 | 44.0 |
| Romania | 39.5 | 17.6 | 15.1 | 8.9 | 14.4 |
| Bulgaria | 25.5 | 26.0 | 34.0 | 40.0 | 43.8 |
| Other EU countries | 162.3 | 136.3 | 127.9 | 204.9 | 260.3 |
| **Imports from other countries** | **1,856.0** | **1,297.3** | **1,316.5** | **1,758.3** | **2,299.8** |
| China | 416.9 | 316.1 | 357.2 | 477.7 | 663.9 |
| Turkey | 232.3 | 137.0 | 163.6 | 222.9 | 252.6 |
| Iran | 206.5 | 198.4 | 164.0 | 174.7 | 269.3 |
| Switzerland | 145.7 | 51.6 | 47.4 | 96.4 | 128.8 |
| USA | 132.0 | 107.6 | 82.9 | 133.4 | 218.4 |
| Japan | 113.7 | 57.6 | 51.7 | 81.0 | 99.1 |
| Brazil | 91.1 | 61.4 | 53.0 | 62.6 | 61.7 |
| India | 63.5 | 52.4 | 71.9 | 46.6 | 77.8 |
| Other countries | 454.5 | 315.3 | 324.9 | 462.8 | 528.2 |
| **Total** | **4,424.4** | **3,239.2** | **3,273.5** | **4,097.1** | **5,015.5** |

Notes:

(1) Figures in this table are current as of 5 July 2019.
(2) The value of imports is recorded on a CIF basis, *i.e.*, the value of goods up to the borders of Armenia, with insurance and transportation costs included, and reflects goods of foreign manufacture that have been imported for consumption and for re-export. Figures in this table do not reflect unregistered trade volumes.
(3) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using average daily exchange rates.

*Source:* Armstat.

The following table sets forth the value of Armenia's imports, in percentage terms, by country of origin for the years indicated:

**Value of Imports of Goods by Country of Origin in Percentage Terms(1)(2)**

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | | | (%) | | |
| **Imports from CIS countries and Georgia** | **32.4** | **35.9** | **37.2** | **35.0** | **31.2** |
| Russia | 25.4 | 29.1 | 30.1 | 28.6 | 25.1 |
| Ukraine | 4.6 | 3.8 | 3.1 | 2.8 | 3.1 |
| Georgia | 1.6 | 2.1 | 3.0 | 2.1 | 1.4 |
| Belarus | 0.7 | 0.8 | 0.7 | 1.0 | 0.8 |
| Turkmenistan | - | - | 0.2 | 0.2 | 0.5 |
| Kazakhstan | - | - | - | 0.1 | 0.1 |
| Other CIS countries | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 |
| **Imports from EU** | **25.6** | **24.0** | **22.5** | **22.0** | **23.0** |
| Germany | 6.4 | 6.2 | 5.7 | 4.9 | 5.9 |
| Italy | 4.1 | 4.6 | 3.9 | 3.9 | 3.6 |
| Belgium | 2.0 | 1.5 | 1.8 | 1.1 | 0.8 |
| France | 1.8 | 2.0 | 1.6 | 1.8 | 2.2 |
| Austria | 1.6 | 0.5 | 0.5 | 0.5 | 0.6 |
| United Kingdom | 1.3 | 0.8 | 0.8 | 0.8 | 0.8 |
| Spain | 1.1 | 0.8 | 0.8 | 0.9 | 0.7 |
| Poland | 1.1 | 1.0 | 1.1 | 1.2 | 0.9 |
| Netherlands | 1.1 | 0.9 | 0.9 | 0.8 | 1.1 |
| Romania | 0.9 | 0.5 | 0.5 | 0.2 | 0.3 |
| Bulgaria | 0.6 | 0.8 | 1.0 | 1.0 | 0.9 |
| Other EU countries | 3.7 | 4.2 | 3.9 | 5.0 | 5.2 |
| **Imports from other countries** | **41.9** | **40.0** | **40.2** | **42.9** | **45.9** |
| China | 9.4 | 9.8 | 10.9 | 11.7 | 13.2 |
| Turkey | 5.2 | 4.2 | 5.0 | 5.4 | 5.0 |
| Iran | 4.7 | 6.1 | 5.0 | 4.3 | 5.4 |
| Switzerland | 3.3 | 1.6 | 1.4 | 2.4 | 2.6 |
| USA | 3.0 | 3.3 | 2.5 | 3.3 | 4.4 |
| Japan | 2.6 | 1.8 | 1.6 | 2.0 | 2.0 |
| Brazil | 2.1 | 1.9 | 1.6 | 1.5 | 1.2 |
| India | 1.4 | 1.6 | 2.2 | 1.1 | 1.6 |
| Other countries | 10.3 | 9.7 | 9.9 | 11.3 | 10.5 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Notes:

(1) Figures in this table are current as of 5 July 2019.

(2) The value of imports is recorded on a CIF basis, *i.e.*, the value of goods up to the borders of Armenia, with insurance and transportation costs included, and reflects goods of foreign manufacture that have been imported for consumption and for re-export. Figures in this table do not reflect unregistered trade volumes.

*Source:* Armstat.

In 2015 imports decreased by 26.8% compared to 2014 before starting to increase year-on-year by 1.1% in 2016, 25.2% in 2017, and by 22.4% in 2018. From 2014 to 2018, the value of imports of goods increased by 13.4% from U.S.$4,424.4 million in 2014 to U.S.$5,015.5 million in 2018, driven in large part by an increase in the import value of machinery and equipment (56.3%), textiles/clothing (85.7%), plastic and rubber (9.4%), prepared foodstuffs (8.1%) and chemical products (12.4%). Partially offsetting this increase in the overall value of imports were an 16.0% decline in mineral products imports and a 4.8% decline in precious stones and metals imports.

### *Exports*

Armenia's exports primarily comprise mineral products, such as copper and electricity, base metals, such as copper ore and ferro-molybdenum, processed and unprocessed food, tobacco, wines and brandy, textiles/clothing and precious stones and metals.

The following table sets forth the value of Armenia's exports by product category for the years indicated:

## Exports of Goods by Value in Dollars(1)(2)(3)

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | | | (U.S.$ millions) | | |
| Mineral products | 385.7 | 476.9 | 471.1 | 675.9 | 644.7 |
| Prepared foodstuffs | 338.1 | 325.3 | 416.6 | 523.9 | 552.9 |
| Base metals | 302.5 | 227.8 | 222.2 | 268.8 | 296.6 |
| Precious stones and metals | 230.3 | 194.0 | 336.9 | 291.0 | 307.4 |
| Animals and animal products | 50.5 | 46.4 | 34.7 | 58.5 | 50.6 |
| Textiles/clothing | 50.3 | 68.4 | 96.8 | 136.1 | 225.3 |
| Transport | 39.9 | 10.7 | 15.4 | 15.9 | 26.3 |
| Vegetables | 37.8 | 37.8 | 69.5 | 49.8 | 93.1 |
| Instruments and devices | 24.7 | 26.0 | 32.8 | 39.4 | 52.8 |
| Machinery and equipment | 23.8 | 15.5 | 21.0 | 41.4 | 43.6 |
| Stone, plaster and cement | 21.2 | 12.0 | 15.2 | 16.0 | 24.2 |
| Chemical products | 14.1 | 15.0 | 17.4 | 29.5 | 28.7 |
| Plastics and rubber | 11.2 | 9.4 | 9.3 | 10.3 | 14.3 |
| Miscellaneous manufactured products | 5.7 | 9.9 | 17.5 | 49.6 | 29.7 |
| Leather products | 3.7 | 5.1 | 8.1 | 10.3 | 13.7 |
| Paper products | 1.9 | 1.5 | 1.4 | 1.2 | 1.4 |
| Footwear, umbrellas and headgear | 1.6 | 1.5 | 2.4 | 2.8 | 4.5 |
| Art and antiques | 1.6 | 0.7 | 1.2 | 0.9 | 0.7 |
| Wood products | 0.8 | 1.3 | 1.5 | 2.3 | 1.9 |
| Fats and oils | 0.1 | 0.1 | 0.6 | 0.1 | 0.1 |
| **Total** | **1,547.3** | **1,485.3** | **1,791.7** | **2,223.9** | **2,412.4** |

Notes:

(1) Figures in this table are current as of 5 July 2019.

(2) The value of exports is recorded on a FOB basis, *i.e*., the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.

(3) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using average daily exchange rates.

*Source:* Armstat.

The following table sets forth the value of Armenia's exports, in percentage terms, by product category for the years indicated:

## Exports of Goods by Value in Percentage Terms(1)(2)

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | | | (%) | | |
| Mineral products | 24.9 | 32.1 | 26.3 | 30.4 | 26.7 |
| Prepared foodstuffs | 21.9 | 21.9 | 23.2 | 23.6 | 22.9 |
| Base metals | 19.6 | 15.3 | 12.4 | 12.1 | 12.3 |
| Precious stones and metals | 14.9 | 13.1 | 18.8 | 13.1 | 12.7 |
| Textiles/clothing | 3.3 | 4.6 | 5.4 | 6.1 | 9.3 |
| Animals and animal products | 3.3 | 3.1 | 1.9 | 2.6 | 2.1 |
| Transport | 2.6 | 0.7 | 0.9 | 0.7 | 1.1 |
| Vegetables | 2.4 | 2.5 | 3.9 | 2.2 | 3.9 |
| Instruments and devices | 1.6 | 1.8 | 1.8 | 1.8 | 2.2 |
| Machinery and equipment | 1.5 | 1.0 | 1.2 | 1.9 | 1.8 |
| Stone, plaster and cement | 1.4 | 0.8 | 0.9 | 0.7 | 1.0 |
| Chemical products | 0.9 | 1.0 | 1.0 | 1.3 | 1.2 |
| Plastics and rubber | 0.7 | 0.6 | 0.5 | 0.5 | 0.6 |
| Miscellaneous manufactured products | 0.4 | 0.7 | 1.0 | 2.2 | 1.2 |
| Leather products | 0.2 | 0.3 | 0.5 | 0.5 | 0.6 |
| Paper products | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Wood products | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Footwear, umbrellas and headgear | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 |
| Art and antiques | 0.1 | - | 0.1 | - | - |
| Fats and oils | - | - | - | - | - |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Notes:

(1) Figures in this table are current as of 5 July 2019.
(2) The value of exports is recorded on a FOB basis, *i.e.*, the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.

*Source:* Armstat.

In 2017 and 2018, the EU accounted for 28.5% and 28.3%, respectively, Russia accounted for 24.4% and 27.6%, respectively, and Iran accounted for 3.8% and 3.9%, respectively, of Armenia's exports. Bulgaria, Germany and the Netherlands are Armenia's principal export markets within the EU. Exports to the EU primarily consist of copper and other metals, exports to Russia primarily consist of alcohol, textiles/clothing, fruits and vegetables, fish and diamonds; and exports to Iran primarily consist of the electricity generated by Iranian natural gas transferred to Armenia pursuant to a gas-for-electricity barter arrangement. See "*Economy of Armenia—Energy—Electricity*." Switzerland, China, the United Arab Emirates and Georgia are also significant export markets for Armenian goods.

The following table sets forth the value of Armenia's exports by country of destination for the years indicated:

**Value of Exports of Goods by Country of Destination in Dollars(1)(2)(3)**

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** |
| | | | *(U.S.$ millions)* | | |
| **Exports to CIS countries and Georgia** | **441.5** | **411.7** | **559.9** | **734.1** | **787.6** |
| **Exports to EU** | **465.1** | **413.1** | **478.6** | **633.7** | **683.2** |
| Russia | 308.3 | 244.9 | 374.5 | 543.6 | 665.8 |
| Germany | 158.6 | 140.3 | 138.9 | 133.1 | 136.1 |
| Bulgaria | 85.6 | 78.9 | 152.4 | 282.3 | 214.9 |
| Georgia | 84.4 | 125.3 | 146.9 | 152.9 | 68.7 |
| Netherlands | 74.4 | 47.3 | 50.8 | 88.6 | 132.4 |
| Belgium | 62.4 | 42.4 | 41.6 | 45.8 | 49.2 |
| Italy | 34.6 | 32.5 | 31.9 | 43.3 | 49.9 |
| Turkmenistan | 14.7 | 17.3 | 5.7 | 6.0 | 3.1 |
| Ukraine | 11.0 | 6.2 | 8.0 | 10.2 | 18.3 |
| Belarus | 9.0 | 6.8 | 13.4 | 7.0 | 11.9 |
| Other CIS countries | 7.2 | 7.0 | 6.3 | 9.5 | 10.1 |
| Kazakhstan | 7.0 | 4.2 | 5.0 | 4.9 | 9.8 |
| France | 5.0 | 5.4 | 3.8 | 4.7 | 8.6 |
| Spain | 0.6 | 1.7 | 0.1 | 1.7 | 0.4 |
| Other EU countries | 43.9 | 64.6 | 59.0 | 34.1 | 91.8 |
| **Exports to other countries** | **640.7** | **660.5** | **753.2** | **856.1** | **941.6** |
| China | 171.0 | 165.3 | 96.4 | 118.5 | 107.2 |
| Canada | 93.3 | 108.3 | 139.9 | 15.0 | 33.2 |
| USA | 91.4 | 52.9 | 38.8 | 66.2 | 47.7 |
| Iran | 85.0 | 81.7 | 75.3 | 84.1 | 94.2 |
| Switzerland | 14.0 | 39.0 | 74.6 | 261.4 | 337.5 |
| UAE | 12.1 | 9.1 | 63.8 | 102.2 | 73.8 |
| Other countries | 174.0 | 204.1 | 264.3 | 208.7 | 247.9 |
| **Total** | **1,547.3** | **1,485.3** | **1,791.7** | **2,223.9** | **2,412.4** |

Notes:

(1) Figures in this table are current as of 5 July 2019.
(2) The value of exports is recorded on a FOB basis, *i.e.*, the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.
(3) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using average daily exchange rates.

*Source:* Armstat.

The following table sets forth the value of Armenia's exports, in percentage terms, by country of destination for the years indicated:

**Value of Exports of Goods by Country of Destination in Percentage Terms**[(1)(2)]

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | | | *(%)* | | |
| **Exports to CIS countries and Georgia** | **28.5** | **27.7** | **31.2** | **33.0** | **32.6** |
| Russia | 19.9 | 16.5 | 20.9 | 24.4 | 27.6 |
| Georgia | 5.5 | 8.4 | 8.2 | 6.9 | 2.8 |
| Turkmenistan | 1.0 | 1.2 | 0.3 | 0.3 | 0.1 |
| Ukraine | 0.7 | 0.4 | 0.4 | 0.5 | 0.8 |
| Belarus | 0.6 | 0.5 | 0.7 | 0.3 | 0.5 |
| Kazakhstan | 0.4 | 0.3 | 0.3 | 0.2 | 0.4 |
| Other CIS countries | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| **Exports to EU** | **30.1** | **27.8** | **26.7** | **28.5** | **28.3** |
| Germany | 10.2 | 9.4 | 7.8 | 6.0 | 5.6 |
| Bulgaria | 5.5 | 5.3 | 8.5 | 12.7 | 8.9 |
| Netherlands | 4.8 | 3.2 | 2.8 | 4.0 | 5.5 |
| Belgium | 4.0 | 2.9 | 2.3 | 2.1 | 2.0 |
| Italy | 2.2 | 2.2 | 1.8 | 1.9 | 2.1 |
| France | 0.3 | 0.4 | 0.2 | 0.2 | 0.4 |
| Spain | - | 0.1 | - | 0.1 | - |
| Other EU countries | 2.8 | 4.3 | 3.3 | 1.5 | 3.8 |
| **Exports to other countries** | **41.4** | **44.5** | **42.0** | **38.5** | **39.0** |
| China | 11.0 | 11.1 | 5.4 | 5.3 | 4.4 |
| Canada | 6.0 | 7.3 | 7.8 | 0.7 | 1.4 |
| USA | 5.9 | 3.6 | 2.2 | 3.0 | 2.0 |
| Iran | 5.5 | 5.5 | 4.2 | 3.8 | 3.9 |
| Switzerland | 0.9 | 2.6 | 4.2 | 11.8 | 14.0 |
| UAE | 0.8 | 0.6 | 3.6 | 4.6 | 3.1 |
| Other countries | 11.2 | 13.7 | 14.8 | 9.4 | 10.3 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Notes:

(1) Figures in this table are current as of 5 July 2019.

(2) The value of exports is recorded on a FOB basis, *i.e.*, the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.

*Source:* Armstat.

Exports decreased by 4% in 2015 compared to 2014 before starting to increase year-on-year by 20.6% in 2016, 24.1% in 2017 and 8.5% in 2018. From 2014 to 2018, the value of exports of goods increased by 55.9% from U.S.$1,547.3 million in 2014 to U.S.$2,412.4 million in 2018, driven mainly by growth in the export value of mineral products (including electricity) (67.1%), prepared foodstuffs (63.5%), textiles/clothing (347.5%) and precious stones and metals (33.5%).

### International Trade Agreements

Armenia has signed a number of multilateral and bilateral economic cooperation agreements. Since 1991, Armenia has been a member of the CIS, and, since 2003, a member of the WTO. Upon signing the Protocol on Accession to the Marrakesh Agreement (the "**Marrakesh Protocol**") establishing the WTO, Armenia joined several WTO agreements and made commitments under the annexes to the Marrakesh Protocol. Armenia is accordingly bound by WTO maximum customs tariff rates allowed on imports, and it is currently compliant with WTO tariff rules. Since accession, Armenia has been improving its customs and tariff practices, replacing *ad valorem* customs fees with good-specific duties. The trade-weighted average tariff of imports to Armenia for most-favoured-nations was 7.5% in 2018. Armenia has most-favoured-nation trading relationships with all WTO members.

Together with Albania, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey and Ukraine, Armenia is also a member of the Organisation of Black Sea Economic Cooperation, which is designed to foster closer economic ties among the countries of the Black Sea region. Armenia has bilateral free trade agreements in place with Georgia, Russia, Ukraine, Moldova, Belarus, Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan and Kyrgyzstan.

On 2 January 2015, Armenia joined the EEU, which seeks to integrate the economies of its member states; the other current EEU member-states are Russia, Belarus, Kazakhstan and the Kyrgyz Republic. Accordingly, Armenia is part of the EEU's customs union, in which no tariffs apply. Armenia's entry into the EEU precluded further pursuit of a deep and comprehensive free trade area with the EU, as had been under consideration. Armenia's entry into the EEU entails a gradual transition (with scheduled completion by 2022) to the unified tariff system of the EEU, as a result of which some tariffs have already increased (according to WTO statistics, as compared to 2009 the applied average tariff in Armenia has increased from 2.7% to 7.5% in 2018) and will further increase until 2022 when the transitional period ends. At the same time, Armenia plans to comply with its obligations under WTO rules as a member of the WTO. Armenia shares no contiguous border with any EEU member state, and goods transiting between Armenia and another EEU state through Georgia still need to undergo procedural formalities and incur road charges in connection with passage through Georgia (although no Georgian customs duties are payable on such goods). As a result, Armenia may not fully exploit the benefits of EEU membership.

On 24 November 2017, the EU and Armenia concluded the EU-Armenia CEPA which provides a framework for cooperation between Armenia and the EU. See "*Description of Armenia—International Relations*" for further discussion of Armenia's relations with the EU.

Since 2009, Armenia has benefited from participation in the Generalised Scheme of Preferences + ("**GSP+**") preferential trading regime. The GSP+ programme provides preferential access to the EU market in the form of zero duties and tariffs for approximately 7,200 products. To continue benefiting from this regime, Armenia must ensure effective implementation of 27 core international conventions on sustainable development and good governance. From year to year, approximately 90% of Armenia's exports to the EU fall under the GSP+ regime. Armenia's GSP+ is valid for 10 years and is subject to discussion every two years; current GSP+ arrangements are valid until 2024. Since 1 January 2018, Armenia has been applying the Registered Exporter System within the GSP+ framework, which significantly facilitates export procedures with respect to the export to the EU and reduces associated costs. Armenia also benefits from Generalised Scheme of Preferences status with the United States, Canada, Japan, Norway and Switzerland.

***Barriers to Trade***

Armenia does not apply quantitative restrictions or non-tariff barriers on trade, except for health, safety and environmental protection considerations. VAT and excise taxes apply equally to imported and local products. See "*Public Finance—Armenian Tax System*." Licensing requirements apply for the import of certain medicines, weapons, explosive materials and radioactive products.

Since Armenia's entry into the EEU, Armenia has been transitioning to the unified tariff system of the EEU, as discussed above. Armenia currently does not have any export restrictions in place, such as export quotas, export tariffs or voluntary export restraints.

**FDI**

Net FDI in Armenia is supported by the full convertibility of the dram and is an important source of financing for the Armenian economy. Armenia relies on net FDI inflows, together with Government, CBA and commercial bank financing and workers' remittances, to cover its trade deficit.

FDI has been relatively low in recent years, with annual FDI in the last four years ranging from U.S.$184.1 million to U.S.$333.7 million. FDI declined by 54.7% to U.S.$184.1 million in 2015, partly due to the outflow of investments in the metal manufacturing sector and telecommunications sector (*e.g.*, the disposal by Orange S.A. of Orange Armenia CJSC in favour of Ucom). In 2016, FDI increased to U.S.$333.7 million, on account of higher investments in financial services sector (*e.g.*, additional equity investment in Byblos Bank Armenia CJSC by its Lebanese shareholder, additional equity investment in Mellat Bank CJSC by its Iranian shareholder and additional equity investment in Evokabank CJSC by its Russian shareholder). In 2017, FDI declined to U.S.$250.9 million, due mainly to outflows of investments from financial services and power and gas supplies sectors. FDI increased slightly in 2018 to U.S.$254.2 million as a result of increases in FDI in the power and gas supply and real estate sectors. FDI decreased in the three months ended 31 March 2019, falling to U.S.$34.4 million, compared to U.S.$94.4 million in the three months ended 31 March 2018. This decrease was largely attributable to FDI outflows from the mining industry sector.

While historically the FDI inflows were mostly directed to major projects, recent FDI inflows mainly directed to smaller, export-oriented manufacturing and services companies.

There are no restrictions on foreign ownership of property or assets in Armenia (except for restrictions to buy land). There are no restrictions on the repatriation of profits/dividends from Armenia, subject to compliance with applicable tax laws.

The following table sets forth the value of FDI net inflows into Armenia by product category for the periods indicated:

**Value of FDI net Inflows into Armenia by Product Category in Dollars**(1)

| | For the year ended 31 December | | | | | For the three months ended 31 March | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | | | | *(U.S.$ millions)* | | | |
| Power and gas supply | 83.4 | 119.1 | 8.4 | (80.9) | 99.1 | 10.3 | 43.2 |
| Food and beverage | 51.5 | 21.5 | 13.5 | (17.6) | 6.8 | 0.9 | (6.4) |
| Mining industry | 38.3 | 61.7 | (52.4) | 33.4 | 23.3 | 17.2 | (36.1) |
| Telecommunications | 16.4 | (62.9) | (21.6) | (28.6) | 2.4 | 3.2 | 2.6 |
| Construction | 15.6 | 1.7 | 0.5 | 0.5 | 6.1 | 0.5 | 0.5 |
| Financial services | 14.1 | 12.4 | 190.5 | 76.1 | 72.9 | 15.9 | 19.7 |
| Agriculture and hunting | 11.5 | 26.2 | 7.3 | 6.1 | 5.4 | 1.3 | (0.1) |
| Hotel services | 7.9 | 6.9 | 64.3 | 6.3 | 7.3 | (1.4) | 0.6 |
| Real estate | 6.2 | 10.7 | 18.9 | 11.5 | 28.1 | (0.4) | 3.1 |
| Land transport | 2.1 | - | (1.2) | 0.4 | 1.1 | (0.3) | 0.3 |
| Metals manufacturing | 0.8 | (62.3) | 12.1 | 14.2 | 13.9 | 3.0 | (0.4) |
| Air transport activities | 0.2 | - | 0.3 | 0.2 | (1.3) | - | (2.0) |
| Research | 0.2 | (0.3) | - | - | (2.8) | (0.2) | (0.3) |
| Other | 158.4 | 49.4 | 93.1 | 229.3 | (8.1) | 44.4 | 9.7 |
| **Total** | **406.6** | **184.1** | **333.7** | **250.9** | **254.2** | **94.4** | **34.4** |

Note:

(1) Figures in this table are current as of 30 June 2019.

*Source:* Armstat, CBA.

The following table sets forth the value of FDI net inflows into Armenia by product category in percentage terms for the periods indicated:

**Value of FDI net Inflows into Armenia by Product Category in Percentages**(1)

| | For the year ended 31 December | | | | | For the three months ended 31 March | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | | | | *(%)* | | | |
| Power and gas supply | 20.5 | 64.7 | 2.5 | (32.2) | 39.0 | 10.9 | 125.6 |
| Food and beverage | 12.7 | 11.7 | 4.0 | (7.0) | 2.7 | 1.0 | (18.6) |
| Mining industry | 9.4 | 33.5 | (15.7) | 13.3 | 9.2 | 18.2 | (104.9) |
| Telecommunications | 4.0 | (34.2) | (6.5) | (11.4) | 0.9 | 3.4 | 7.6 |
| Construction | 3.8 | 0.9 | 0.1 | 0.2 | 2.4 | 0.5 | 1.5 |
| Financial services | 3.5 | 6.7 | 57.1 | 30.3 | 28.7 | 16.8 | 57.3 |
| Agriculture and hunting | 2.8 | 14.2 | 2.2 | 2.4 | 2.1 | 1.4 | (0.3) |
| Hotel services | 1.9 | 3.7 | 19.3 | 2.5 | 2.9 | (1.5) | 1.7 |
| Real estate | 1.5 | 5.8 | 5.7 | 4.6 | 11.1 | (0.4) | 9.0 |
| Land transport(3) | 0.5 | - | (0.4) | 0.2 | 0.4 | (0.3) | 0.9 |
| Metals manufacturing | 0.2 | (33.8) | 3.6 | 5.7 | 5.5 | 3.2 | (1.2) |
| Research | - | (0.2) | - | - | (1.1) | (0.2) | (0.9) |
| Air transport activities | - | - | 0.1 | 0.1 | (0.5) | - | (5.8) |
| Other | 39.0 | 26.8 | 27.9 | 91.4 | (3.2) | 47.0 | 28.2 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Note:

(1) Figures in this table are current as of 30 June 2019.

*Source:* Armstat, CBA.

The following table sets forth the value of FDI net inflows into Armenia by country of origin for the periods indicated:

**Value of FDI net Inflows into Armenia by Country of Origin in Dollars**[(1)]

| | For the year ended 31 December | | | | | For the three months ended 31 March | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | | | | *(U.S.$ millions)* | | | |
| Russia | 108.6 | 77.5 | (116.9) | (1.0) | 162.2 | 5.4 | 22.1 |
| Germany | 49.0 | (18.5) | (1.1) | 30.0 | 32.6 | 17.4 | (6.3) |
| Switzerland | 28.8 | 86.6 | (3.3) | 2.2 | (5.2) | 0.7 | 1.3 |
| Argentina | 16.0 | 26.1 | 7.4 | 6.1 | 7.5 | 1.3 | (0.6) |
| France | 10.5 | (72.7) | 10.0 | (11.1) | (31.7) | 1.4 | (7.4) |
| Lebanon | 3.4 | 9.2 | (11.9) | (13.1) | 15.6 | 5.2 | 6.1 |
| Seychelles | (6.9) | 4.4 | 1.1 | - | - | | - |
| Other | 197.2 | 65.7 | 451.6 | 236.8 | 73.2 | 63.0 | 19.2 |
| **Total** | **406.6** | **178.3** | **336.9** | **249.9** | **254.2** | **94.4** | **34.4** |

Note:

(1) Figures in this table are current as of 30 June 2019.

*Source:* Armstat, CBA.

The following table sets forth the value of FDI net inflows into Armenia by country of origin in percentage terms for the periods indicated:

**Value of FDI net Inflows into Armenia by Country of Origin in Percentages**[(1)]

| | For the year ended 31 December | | | | | For the three months ended 31 March | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | | | | *(%)* | | | |
| Russia | 26.7 | 43.5 | (34.7) | (0.4) | 63.8 | 5.7 | 64.2 |
| Germany | 12.1 | (10.4) | (0.3) | 12.0 | 12.8 | 18.4 | (18.3) |
| Switzerland | 7.1 | 48.6 | (1.0) | 0.9 | (2.0) | 0.7 | 3.8 |
| Argentina | 3.9 | 14.6 | 2.2 | 2.4 | 3.0 | 1.4 | (1.7) |
| France | 2.6 | (40.8) | 3.0 | (4.4) | (12.5) | 1.5 | (21.5) |
| Lebanon | 0.8 | 5.2 | (3.5) | (5.2) | 6.1 | 5.5 | 17.7 |
| Seychelles | (1.7) | 2.5 | 0.3 | - | - | - | - |
| Other | 48.5 | 36.8 | 134.0 | 94.8 | 28.8 | 66.7 | 55.8 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Note:

(1) Figures in this table are current as of 30 June 2019.

*Source: Armstat, CBA.*

### ***"Business Armenia" Foundation and Armenia National Interest Fund***

Since 1998, Armenia has sought to encourage FDI in Armenia and promote Armenian exports abroad, a function now carried out by the "Business Armenia" Foundation. The aim of the "Business Armenia" is to enhance Armenia's rating and competitiveness, attract investments and promote exports. It provides information on investment opportunities in Armenia, assists foreign investors in setting up local businesses, advises foreign investors on developments in investment-related laws and regulations and liaises with the Government on behalf of foreign investors.

"Business Armenia" also promotes Armenian exports by researching potential markets for Armenian goods and services, locating joint venture partners on behalf of Armenian exporters and organising international conferences and trade fairs in support of Armenian products.

On 20 May 2019, the Government established the Armenian National Interest Fund (the "**ANIF**"). ANIF's goal is to act as a fiduciary for Armenia's public interests in FDI matters, as well as to increase investment flows into Armenia. ANIF will co-invest with its selected partners into promising large-scale projects in Armenia, including critical infrastructure projects.

## PUBLIC FINANCE

### Overview

The Law on the Budgetary System of Armenia (the "**Budgetary System Law**"), adopted on 21 July 1997 (as subsequently amended), defines the procedures governing Armenia's budgetary system and regulates the preparation, adoption, execution and monitoring of the Consolidated Budget (as defined below). The Budgetary System Law also defines the budgetary relations between the Government and local governments.

The consolidated general government budget (the "**Consolidated Budget**") comprises (i) the state budget (the "**State Budget**") and (ii) the local government budgets.

The following table sets out the Consolidated Budget of Armenia for the periods indicated:

**Consolidated Budget**

| | For the year ended 31 December | | | | | For the three months ended 31 March | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2018 | 2019 |
| | *(AMD billions)* | | | | | | |
| **Consolidated Budget** | | | | | | | |
| Revenues | 1,178.2 | 1,201.7 | 1,205.8 | 1,276.8 | 1,384.5 | 266.2 | 330.9 |
| Expenditures | 1,268.8 | 1,444.0 | 1,485.3 | 1,541.6 | 1,480.8 | 285.2 | 290.5 |
| Deficit/(surplus) | 90.6 | 242.3 | 279.5 | 264.8 | 96.3 | 19.0 | (40.4) |
| **State Budget** | | | | | | | |
| Revenues | 1,144.8 | 1,167.7 | 1,171.1 | 1,237.8 | 1,341.7 | 255.7 | 319.8 |
| Expenditures | 1,235.1 | 1,409.0 | 1,449.1 | 1,504.8 | 1,447.1 | 282.0 | 288.5 |
| Deficit/(surplus) | 90.3 | 241.3 | 278.0 | 267.0 | 105.4 | 26.3 | (31.2) |
| **Local budgets** | | | | | | | |
| Revenues | 114.4 | 128.2 | 128.6 | 126.6 | 127.5 | 27.7 | 29.9 |
| Expenditures | 114.6 | 129.2 | 130.2 | 124.4 | 118.4 | 20.5 | 20.7 |
| Deficit/(surplus) | 0.3 | 1.0 | 1.5 | (2.2) | (9.1) | (7.3) | (9.2) |

*Source*: Ministry of Finance.

The Ministry of Finance is centrally involved in each stage of the budgetary process, establishing fiscal policy objectives and coordinating the preparation, adoption, execution and reporting of the State Budget. In addition to the Ministry of Finance, each of the Government, National Assembly and Audit Chamber of the Republic of Armenia (the "**Audit Chamber**") performs certain oversight functions with respect to execution of the State Budget. Budget figures are also discussed with IMF missions in the context of their annual review process.

Under the Budgetary System Law, local governments are entitled to a share of the revenues from certain Government-imposed taxes and are permitted to raise revenues directly through limited property tax levies and local duties, as well as through certain fees and other non-tax measures. The Government also allocates funds to local governments by subsidies (to address regional economic disparities) and other transfers. See "*—Fiscal Relations with Local Governments*."

#### *Fiscal Reforms*

Modernising the country's public finance system in an effort to improve the preparation, execution and oversight of the budgetary process/cycle is a key priority of the Government. In 1996, the Government initiated a set of reforms, whereby all bank accounts held by State and local budgetary institutions were closed (except for project implementation units ("**PIUs**") that were required by donors to operate with commercial bank accounts) and replaced with a treasury single account (the "**TSA**") held at the CBA and controlled by the Ministry of Finance. All budgetary receipts and payments on both the State and community levels are now processed through the TSA. As of 31 December 2014, all PIU accounts were also transferred to the TSA. As part of these reforms, the Government established an integrated general treasury ledger with sub-accounts for each budgetary institution and began to report all accounts on a cash basis and in accordance with the principle of double-entry accounting. Improved methods for monitoring all stages of the expenditure cycle were also introduced, and contingent liabilities are now recorded. Since 2008, Government financial statistics have been prepared and reported in accordance with the guidelines and definitions set forth in the IMF's Government

Finance Statistics Manual ("**GFSM 2001**"). At the end of 2018, all state non-commercial organisations were also transferred to the TSA from the commercial banks.

In 2016, the Government approved a new Public Finance Management Strategy along with an action plan with respect thereto for 2016-2020, which set forth several reforms designed to: (i) enhance fiscal discipline; (ii) ensure that resources are used in line with the main Government policies and priorities; (iii) ensure the application of the concept "value for money" guaranteeing that resources are spent in an effective and efficient manner; and (iv) ensure accountability concerning the management of public resources. The Ministry of Finance is also further pursuing reforms to introduce an internal auditing system and new accounting standards based on International Public Sector Accounting Standards (IPSAS) in ministries and their respective internal budget departments.

Since 2011, the Government has begun the transition to a programme-based budgetary system, which is a results-oriented budgeting procedure meant to shift focus from managing financial resources to managing results and to strengthen linkages between policy objectives/targets and budgets. Under a programme-based approach to budgeting, non-financial performance indicators, such as the quality of services rendered or delivered by a budgetary institution, in addition to financial performance measures, are taken into consideration when planning appropriations and assessing their performance. As part of this transition, public spending is expected to be channelled through programmes tied to specific targets and measurable indicators. Furthermore, the Government plans to continue with measures to improve the presentation of expenditure items in accordance with functional classification spheres. These reforms are expected to grant the ministries more autonomy over the development and management of their respective budgets, to make the budget planning process more detailed and to put greater emphasis on medium-term benchmarking. The State Budget for 2019 was prepared in accordance with a programme-based approach. The Government plans to intensify the application of the programme-based approach in future budgeting.

In 2019, the Government is putting a strong emphasis on strengthening the public investment management ("**PIM**") framework and improving the management of foreign-financed capital spending. To this end, the Government has decided to incorporate all PIUs into the relevant ministries to eliminate redundant and overlapping functions, streamline responsibilities, and raise accountability. This restructuring should help to control the implementation of donor-financed projects, reduce the volatility in budget execution, and optimize the use of public resources. The Government regards having a sound and complete PIM framework as paramount for better managing the project pipeline, prioritizing and selecting investment projects, and linking them with the priorities in the Government's programme, as well as the MTEF and budget processes.

See "*—Armenian Tax System—Reforms*," for a discussion of tax reforms.

**Budget Process**

***Budget Preparation and Adoption***

Armenia's fiscal year is from 1 January to 31 December. The draft State Budget is prepared by the Ministry of Finance, in consultation with other ministries and agencies. The process of drafting and enacting the State Budget is carried out in accordance with detailed budget calendars and procedures as prescribed by the Budgetary System Law. No later than 90 days before the end of the current year, the Government presents the draft State Budget for the following fiscal year to the National Assembly for review and comment; in conjunction therewith, in order to improve the transparency and increase the supervisory role of the National Assembly, the Government carries out a process of organising meetings with relevant standing committees of the National Assembly to discuss the budget programmes and non-financial indicators prior to sending a formal draft of the State Budget. The draft State Budget contains a three-year forecast for the main socio-economic indicators of the country as well as budget projections for the three years following the fiscal year covered by the draft State Budget. The State Budget for the upcoming year is typically adopted by the National Assembly in November or early December, after which it is sent to the President for signature. The 2019 State Budget was approved by the National Assembly on 22 November 2018.

The Ministry of Finance also prepares the Medium-Term Public Expenditure Framework (the "**MTEF**"), using budgetary information and spending requests gathered from other ministries and agencies, which it then submits to the Government for approval. The MTEF is an important component of the budgetary process as it sets out the Government's fiscal priorities over the medium-term and analyses the historical performance and future needs of the Armenian economy on a sector-by-sector basis. The MTEF also contains certain medium-term economic and budgetary projections. The MTEF is typically approved by the Government in June or July of each year. The MTEF currently in effect was approved on 10 July 2019 by the Government and covers the three-year period from 2020 to 2022. The MTEF for 2020-2022 also indorses a preliminary draft of State Budget for 2020, which was sent to the National Assembly for discussion at the relevant standing committees.

***Budget Execution and Monitoring***

After the annual State Budget becomes law, the Government issues an implementing decree on its execution, which includes quarterly breakdowns of revenues and expenditures.

The Ministry of Finance is responsible for managing the execution of the State Budget, which sets out targets for revenues and expenditures, as well as caps on domestic and foreign borrowing and other sources of deficit financing. The expenditure levels as set forth in the State Budget are annual spending limits with breakdowns for each line item. Upon adoption of the State Budget, the Ministry of Finance promulgates annual, quarterly and monthly allocation targets for each line item. Within the annual spending limits, the Government may, and often does, reallocate funds between line items. In addition, pursuant to the Budgetary System Law, the Government has access to a reserve fund ("**Government Reserve Fund**"), which is a source of financing for unforeseen expenditures in the State Budget. The Government Reserve Fund may not exceed 5% of the total budgetary appropriations for the relevant fiscal year. Subject to certain conditions under the Budgetary System Law, the Government may increase spending levels beyond annual spending limits without seeking approval of the National Assembly.

There are various mechanisms in place for monitoring implementation of the State Budget. The Audit Chamber is responsible for carrying out periodic audits of Government accounts, and, in addition to the audits it is required to perform, may also on its own initiative and at any time initiate an investigation of Government programmes and expenditures. In addition, the Government has certain reporting obligations concerning the State Budget. Within 40 days after the end of each quarter, the Government is required to deliver a status report (prepared with the assistance of the Ministry of Finance) to the National Assembly on progress made in the implementation of the State Budget, and, on 1 May of each year, the Government must submit to the National Assembly a final report on the performance of the previous year's State Budget (the "**Annual Budget Report**"). The Annual Budget Report is required by law to include analyses of key economic and budgetary trends and to disclose certain data on the Public Debt and any use of the Government Reserve Fund. The Audit Chamber reviews the Annual Budget Report and provides the National Assembly with its own set of findings on the accuracy of the figures included therein and on the level of Government compliance with the country's budgetary laws and regulations. The National Assembly is required under the Budgetary System Law to discuss and approve the Annual Budget Report no later than the second Wednesday in June. As part of its commitment to e-governance and transparency, Armenia has become one of the first countries in the world to allow the real-time monitoring of the execution of the State Budget, having introduced this capacity on the Government website (www.e-gov.am) since 2012.

The following table shows the actual public revenues and expenditures against the State Budget for the years 2014 to 2018 and for the first six months of 2019:

**Actual and Budgeted Revenues and Expenditures**

| | For the year ended 31 December | | | | | | | | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | | 2019 | |
| | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual |
| | *(AMD billions)* | | | | | | | | | | | |
| **Revenues** | **1,188.8** | **1,144.8** | **1,248.6** | **1,167.7** | **1,278.5** | **1,171.1** | **1,320.9** | **1,237.8** | **1,365.3** | **1,341.7** | **711.4** | **758.5** |
| Tax revenues | 1,100.1 | 1,064.1 | 1,140.6 | 1,067.9 | 1,173.9 | 1,079.7 | 1,204.7 | 1,158.0 | 1,262.1 | 1,258.1 | 658.1 | 713.4 |
| Grants | 25.1 | 17.3 | 38.2 | 29.9 | 43.0 | 31.4 | 35.1 | 14.6 | 38.6 | 11.2 | 17.9 | 6.7 |
| Other revenues | 63.6 | 63.4 | 69.8 | 70.0 | 61.7 | 60.0 | 81.0 | 65.2 | 64.7 | 72.3 | 35.4 | 38.4 |
| **Expenditures** | **1,294.5** | **1.235.1** | **1,415.2** | **1,409.0** | **1,459.0** | **1,449.1** | **1,561.0** | **1,504.8** | **1,527.3** | **1,447.1** | **798.0** | **636.6** |
| Debt service | 62.3 | 61.6 | 74.1 | 74.1 | 98.7 | 98.3 | 122.6 | 122.1 | 139.2 | 139.0 | 76.8 | 73.1 |
| Interest on Government Internal Debt | 33.2 | 33.1 | 32.2 | 32.2 | 42.2 | 42.0 | 58.2 | 58.2 | 64.1 | 64.0 | 33.7 | 33.6 |
| Interest on Government External Debt | 29.1 | 28.6 | 41.9 | 41.9 | 56.5 | 56.2 | 64.4 | 63.9 | 75.0 | 75.0 | 43.1 | 39.5 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-interest expenditures | 1,232.2 | 1,173.4 | 1,341.1 | 1,334.9 | 1,360.3 | 1,350.8 | 1,438.5 | 1,382.7 | 1,388.1 | 1,308.1 | 721.1 | 563.6 |
| General public services | 162.8 | 155.6 | 211.4 | 207.3 | 203.2 | 193.8 | 158.4 | 154.9 | 146.2 | 139.4 | 79.0 | 67.3 |
| Interbudgetary transfers to local governments | 41.0 | 41.0 | 47.7 | 47.4 | 49.7 | 49.4 | 49.0 | 48.8 | 49.2 | 48.9 | 26.0 | 25.9 |
| Defence | 194.2 | 190.4 | 207.5 | 198.5 | 217.4 | 225.9 | 296.5 | 294.4 | 247.6 | 238.5 | 128.5 | 79.2 |
| Public order, security and judiciary | 107.0 | 104.8 | 123.0 | 122.0 | 124.6 | 120.3 | 124.7 | 122.5 | 127.5 | 123.1 | 66.1 | 58.2 |
| Economic relations | 110.9 | 83.3 | 105.0 | 109.8 | 119.3 | 131.1 | 151.8 | 129.5 | 135.8 | 112.2 | 82.9 | 34.6 |
| Environmental protection | 5.0 | 4.7 | 5.6 | 5.7 | 4.7 | 4.5 | 11.1 | 5.4 | 10.7 | 5.7 | 4.3 | 2.4 |
| Housing and public services | 27.8 | 31.3 | 34.2 | 39.2 | 33.9 | 25.6 | 17.4 | 12.6 | 25.0 | 11.7 | 15.4 | 4.8 |
| Health care | 84.6 | 76.6 | 86.2 | 86.1 | 88.9 | 88.6 | 85.7 | 83.2 | 83.3 | 79.6 | 41.8 | 34.3 |
| Tourism, culture and religion | 21.3 | 21.4 | 30.3 | 30.4 | 27.0 | 26.6 | 26.1 | 26.0 | 26.0 | 25.3 | 15.0 | 13.3 |
| Education | 119.1 | 115.8 | 122.1 | 122.3 | 125.9 | 122.4 | 124.8 | 124.4 | 124.6 | 121.6 | 59.0 | 53.5 |
| Social welfare | 352.0 | 342.5 | 385.2 | 383.7 | 399.5 | 396.8 | 413.1 | 409.0 | 424.4 | 416.6 | 227.8 | 216.0 |
| Other reserve funds(1) | 47.5 | 47.0 | 30.5 | 29.9 | 16.1 | 15.1 | 28.8 | 20.7 | 37.1 | 34.3 | 1.2 | - |
| **Budget balance** | **(105.7)** | **(90.3)** | **(166.5)** | **(241.3)** | **(180.5)** | **(278.0)** | **(240.2)** | **(267.0)** | **(161.9)** | **(105.4)** | **(86.6)** | **121.9** |

Note:

(1) During the periods under review, "other reserve funds" consisted of solely the Government Reserve Fund.

*Source:* Ministry of Finance.

With the exception of the first six months of 2019, actual revenues were lower than budgeted revenues in each period under review. Actual expenditures were lower than budgeted expenditures in each period under review, in part reflecting delays in making planned capital expenditure. Actual budget deficits in each year under review were higher than budget estimates, except for 2014 and 2018. In the first six months of 2019, the actual budget reflected a surplus of AMD121.9 billion, compared to a budgeted deficit of AMD86.6 billion, mainly due to lower than expected expenditures on defence, economic relations and social welfare and to higher than expected tax revenues, reflecting improved tax administration, including increasing digitalisation of invoicing and tax collection.

### 2019 State Budget

The following table sets forth the State Budget for 2019, as approved by the National Assembly:

**2019 State Budget**

| | AMD billions | % of GDP |
|---|---|---|
| **Total revenues** | **1,496.5** | **22.1** |
| Tax revenues and duties | 1,401.9 | 20.7 |
| Grants | 39.5 | 0.6 |
| Other revenues | 55.1 | 0.8 |
| **Total expenditures** | **1,648.1** | **24.4** |
| Debt service | 158.1 | 2.3 |
| Interest on Government Internal Debt | 68.9 | 1.0 |
| Interest on Government External Debt | 89.1 | 1.3 |
| Non-interest expenditures | 1,490.0 | 22.1 |
| General public services | 157.8 | 2.3 |
| Interbudgetary transfers to local governments | 52.0 | 0.8 |
| Defence | 313.3 | 4.6 |
| Public order, security and judicial activity | 138.8 | 2.1 |
| Economic relations | 133.4 | 2.0 |
| Environment protection | 11.9 | 0.2 |
| Housing and public services | 18.0 | 0.3 |
| Health care | 91.7 | 1.4 |
| Tourism, culture and religion | 30.3 | 0.4 |

| | | |
|---|---|---|
| Education | 141.9 | 2.1 |
| Social welfare | 444.3 | 6.6 |
| Other reserve funds[(1)] | 8.7 | 0.1 |
| **Deficit** | **(151.6)** | **(2.2)** |
| | | |
| **Deficit financing** | **151.6** | **2.2** |
| Domestic financing | 54.1 | 0.8 |
| Net borrowings | 69.1 | 1.0 |
| Net financial assets | (15.0) | (0.2) |
| External financing | 97.5 | 1.4 |
| Net borrowings | 155.4 | 2.3 |
| Net financial assets | (57.9) | (0.9) |

Note:

(1) For the 2019 Budget, "other reserve funds" consists of solely the Government Reserve Fund.

*Source:* Ministry of Finance.

The 2019 State Budget was based on the following macroeconomic assumptions for 2019: a nominal GDP of AMD6,756.2 billion; annual inflation of 3.5%; and an average exchange rate of AMD486.55 per U.S.$.

The 2019 State Budget envisages revenues in 2019 of AMD1,496.5 billion, or 22.1% of GDP, expenditures of AMD1,648.1 billion, or 24.4% of GDP, and an overall deficit of AMD151.6 billion, or 2.2% of GDP. The 2019 State Budget envisions net external borrowings in 2019 of AMD155.4 billion, or 2.3% of GDP excluding the proceeds from the Notes.

The following table sets forth certain budgetary projections, as set forth in the current MTEF and approved by the Government:

**Medium-Term Expenditure Framework for 2020-2022**

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | |
| | AMD billions | % of GDP | AMD billions | % of GDP | AMD billions | % of GDP |
| **Total revenues** | **1,711.3** | **24.5** | **1,859.4** | **24.4** | **2,050.8** | **24.6** |
| Tax revenues and duties | 1,621.2 | 23.2 | 1,787.5 | 23.5 | 1,988.8 | 23.9 |
| Grants | 31.0 | 0.4 | 12.1 | 0.2 | 1.8 | - |
| Other revenues | 59.1 | 0.8 | 59.8 | 0.8 | 60.2 | 0.7 |
| | | | | | | |
| **Total expenditures** | **1,871.7** | **26.8** | **2,027.7** | **26.6** | **2,235.5** | **26.9** |
| Debt service | 183.0 | 2.6 | 189.6 | 2.5 | 207.9 | 2.5 |
| Interest on Government Internal Debt | 79.1 | 1.1 | 87.3 | 1.1 | 100.4 | 1.2 |
| Interest on Government External Debt | 103.9 | 1.5 | 102.3 | 1.3 | 107.5 | 1.3 |
| Non-interest expenditures | 1,688.7 | 24.2 | 1,838.1 | 24.1 | 2,027.5 | 24.4 |
| Social, culture, science | 772.5 | 11.1 | 802.6 | 10.5 | 836.8 | 10.1 |
| Defence, public order, security and judicial activity | 419.7 | 6.0 | 436.6 | 5.7 | 429.2 | 5.2 |
| Economic relations, Environment protection, Housing and public services | 333.0 | 4.8 | 344.7 | 4.5 | 342.6 | 4.1 |
| Public administration | 163.5 | 2.3 | 254.3 | 3.3 | 419.0 | 5.0 |
| **Deficit** | **160.4** | **2.3** | **168.3** | **2.2** | **184.7** | **2.2** |
| | | | | | | |
| **Deficit financing** | **160.3** | **2.3** | **168.3** | **2.2** | **184.6** | **2.2** |
| Domestic financing | 101.2 | 1.5 | 131.8 | 1.7 | 158.3 | 1.9 |
| Net borrowings | 89.1 | 1.3 | 110.0 | 1.4 | 130.0 | 1.6 |
| Net financial assets | 12.1 | 0.2 | 21.8 | 0.3 | 28.3 | 0.3 |
| External financing | 59.1 | 0.8 | 36.5 | 0.5 | 26.3 | 0.3 |
| Net borrowings | 124.6 | 1.8 | 108.2 | 1.4 | 105.2 | 1.3 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net financial assets.............. | (65.5) | (0.9) | (71.7) | (0.9) | (78.9) | (0.9) |
| *Assumptions:* | | | | | | |
| Nominal GDP, AMD billions..... | 6,975.4 | | 7,615.7 | | 8,320.6 | |
| CPI ............................................ | 3.1 | | 3.9 | | 4.0 | |
| Average exchange rate (AMD/U.S.$)............................. | 486.42 | | 486.42 | | 486.42 | |

*Source:* Ministry of Finance.

## Public Accounts

The following table sets forth a summary of the actual revenues and expenditures of, and certain other statistics related to, the State Budget for the periods indicated:

**Public Accounts**

| | For the year ended 31 December | | | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019** |
| | *(AMD billions, except percentages)* | | | | | | |
| **Revenues** ............................................ | **1,144.8** | **1,167.7** | **1,171.1** | **1,237.8** | **1,341.7** | **606.5** | **758.5** |
| Taxes and duties .................................. | 1,064.1 | 1,067.9 | 1,079.7 | 1,158.0 | 1,258.1 | 572.9 | 713.4 |
| VAT ................................................ | 440.4 | 423.9 | 391.1 | 406.6 | 438.2 | 193.5 | 262.2 |
| Social contributions .......................... | 4.8 | 10.9 | 13.4 | 15.8 | 17.4 | 9.2 | 9.4 |
| Excise taxes...................................... | 50.6 | 49.0 | 59.7 | 82.3 | 109.0 | 48.8 | 61.0 |
| Personal income tax.......................... | 289.2 | 311.7 | 332.7 | 341.5 | 356.6 | 168.3 | 233.0 |
| Profit tax........................................... | 103.6 | 103.7 | 127.2 | 109.9 | 170.1 | 97.9 | 166.1 |
| Customs duties.................................. | 48.4 | 61.5 | 55.4 | 72.6 | 80.2 | 39.0 | 40.8 |
| Stamp duties ..................................... | 39.3 | 32.4 | 33.3 | 37.1 | 37.9 | 15.8 | 17.2 |
| Presumptive tax(1) ............................. | 4.9 | 3.1 | 3.2 | 3.6 | - | - | - |
| Other taxes........................................ | 83.1 | 71.7 | 63.6 | 88.6 | 104.1 | 55.4 | 59.8 |
| Overpayments................................... | - | - | - | - | (55.3) | (55.0) | (136.1) |
| Grants .................................................. | 17.3 | 29.9 | 31.4 | 14.6 | 11.2 | 3.8 | 6.7 |
| Other revenues ..................................... | 63.4 | 70.0 | 60.0 | 65.2 | 72.3 | 29.8 | 38.4 |
| **Expenditures(2)**..................................... | **1,235.1** | **1,409.0** | **1,449.1** | **1,504.8** | **1,447.1** | **610.3** | **636.6** |
| **Debt service** ......................................... | **61.6** | **74.1** | **98.3** | **122.1** | **139.0** | **68.3** | **73.1** |
| Interest on Government Internal Debt.................................................. | 33.1 | 32.2 | 42.0 | 58.2 | 64.0 | 33.0 | 33.6 |
| Interest on Government External Debt.................................................. | 28.6 | 41.9 | 56.2 | 63.9 | 75.0 | 35.3 | 39.5 |
| **Non-interest expenditures**.................. | **1,173.4** | **1,334.9** | **1,350.8** | **1,382.7** | **1,308.1** | **542.1** | **563.6** |
| Social welfare .................................... | 342.5 | 383.7 | 396.8 | 409.0 | 416.6 | 195.6 | 216.0 |
| Defence ............................................ | 190.4 | 198.5 | 225.9 | 294.4 | 238.5 | 82.6 | 79.2 |
| General public services .................... | 155.6 | 207.3 | 193.8 | 154.9 | 139.4 | 63.6 | 67.3 |
| Interbudgetary transfers to local governments .................. | 41.0 | 47.4 | 49.4 | 48.8 | 48.9 | 24.5 | 25.9 |
| Education.......................................... | 115.8 | 122.3 | 122.4 | 124.4 | 121.6 | 52.1 | 53.5 |
| Public order, security and judiciary .. | 104.8 | 122.0 | 120.3 | 122.5 | 123.1 | 53.8 | 58.2 |
| Economic relations............................. | 83.3 | 109.8 | 131.1 | 129.5 | 112.2 | 40.7 | 34.6 |
| Health care ....................................... | 76.6 | 86.1 | 88.6 | 83.2 | 79.6 | 31.5 | 34.3 |
| Other reserve funds(3) ...................... | 47.0 | 29.9 | 15.1 | 20.7 | 34.3 | 5.6 | - |
| Tourism, culture and religion ........... | 21.4 | 30.4 | 26.6 | 26.0 | 25.3 | 11.1 | 13.3 |
| Housing and public services ............. | 31.3 | 39.2 | 25.6 | 12.6 | 11.7 | 3.7 | 4.8 |
| Environmental protection ...................... | 4.7 | 5.7 | 4.5 | 5.4 | 5.7 | 1.9 | 2.4 |
| **State Budget deficit** ........................... | **90.3** | **241.3** | **278.0** | **267.0** | **105.4** | **3.9** | **(121.9)** |
| Revenues/GDP (%)(4)............................ | 23.7 | 23.2 | 23.1 | 22.2 | 22.3 | 24.5 | n/a |
| Expenditures/GDP (%)(4)....................... | 25.6 | 27.9 | 28.6 | 27.0 | 24.1 | 24.6 | n/a |
| Deficit/GDP (%)(4)................................ | 1.9 | 4.8 | 5.5 | 4.8 | 1.8 | 0.2 | n/a |

Notes:

(1) The past "presumptive" tax regime, which applied to activities such as gambling, ended on 31 December 2017, replaced by an interim "patent" tax regime of such activities in effect in 2018-2019 (and the revenues generated thereby are classified as "Other taxes" for the purposes of this table), which in turn will be replaced by a new regime of licencing fees effective 1 January 2020 – see "—*Armenian Tax System—Tax Structure—Other taxes*."

(2) Under the Budgetary System Law, the Government has the authority to allocate extra-budgetary funding (which arises from the collection of fees by Government agencies, *e.g.*, the issuance of licence plates and passports, fines, and donations from multilateral

organisations). This funding is not recorded as a separate line-item in the State Budget, but rather is distributed among existing line items based on the sphere to which the money is allocated. This funding is not subject to approval by the National Assembly. However, the Government's approval of such spending is considered an amendment to the State Budget and is subject to the same execution processes and reporting rules as the other items of the State Budget. Extra-budgetary funds in the periods under review were as follows: AMD33.8 billion (2.7% of annual expenditures) in 2014; AMD37.2 billion (2.6% of annual expenditures) in 2015; AMD27.1 billion (1.9% of annual expenditures) in 2016; AMD34.9 billion (2.3% of annual expenditures) in 2017; AMD37.4 billion (2.6% of annual expenditures) in the 2018; AMD12.6 billion (2.1% of period expenditures) in the six months ended 30 June 2018; and AMD19.3 billion (3.0% of period expenditures) in the six months ended 30 June 2019.

(3) During the periods under review, "other reserve funds" consisted of solely the Government Reserve Fund.

(4) Calculated as a percentage of Armenia's nominal GDP.

*Source:* Ministry of Finance.

### *Revenues*

The Government's principal sources of revenues are taxes, in particular, VAT, personal income taxes and profit taxes. See "—*Armenian Tax System—Tax Structure*."

Total revenues have grown over the past five years, from AMD1,144.8 billion in 2014 to AMD1,341.7 billion in 2018, an increase of 17.2%. In the six months ended 30 June 2019, total revenues comprised AMD758.5 billion. Revenues experienced year-on-year growth in each year under review, and tax revenues as a share of GDP slightly decreased from 22.0% in 2014 to 21.0% in 2018. In the six months ended 30 June 2019, revenues increased by 25.1%, compared to the six months ended 30 June 2018, reflecting strong tax administration efforts under the new Government, and driven mainly by a 38.5% increase in personal income tax collections, a 69.8% increase in profit tax collections and a 35.5% increase in VAT collections.

Taxes and duties represent the largest share of Government revenues, accounting for 93.8% and 94.1%, respectively, of State Budget revenues in 2018 and the six months ended 30 June 2019. Due to a combination of GDP growth and measures taken to improve tax collection (see "—*Armenian Tax System—Reforms*"), tax revenues and duties increased by 18.2% between 2014 and 2018, driven largely by a 23.3% growth in personal income tax receipts, a 64.2% rise in profit tax collections and a 115.4% increase in excise duties collections.

The following table sets forth certain additional information about State Budget revenues for the periods indicated:

**State Budget Revenues**

| | For the year ended 31 December | | | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2018 | 2019 |
| | *(AMD billions, except percentages)* | | | | | | |
| **Total tax revenues and duties** | **1,064.1** | **1,067.9** | **1,079.7** | **1,158.0** | **1,258.1** | **572.9** | **713.4** |
| Annual (period) change *(%)* | 6.3 | 0.4 | 1.1 | 7.3 | 8.6 | 4.1 | 24.5 |
| % of GDP(1) | 22.0 | 21.2 | 21.3 | 20.8 | 21.0 | 23.1 | n/a |
| % of total revenues | 93.0 | 91.4 | 92.2 | 93.6 | 93.8 | 94.5 | 94.1 |
| **VAT** | **440.4** | **423.9** | **391.1** | **406.6** | **438.2** | **193.5** | **262.2** |
| Annual (period) change *(%)* | 9.6 | (3.7) | (7.7) | 4.0 | 7.8 | 2.3 | 35.5 |
| % of GDP(1) | 9.1 | 8.4 | 7.7 | 7.3 | 7.3 | 7.8 | n/a |
| % of total revenues | 38.5 | 36.3 | 33.4 | 32.8 | 32.7 | 31.9 | 34.6 |
| **Social contributions** | **4.8** | **10.9** | **13.4** | **15.8** | **17.4** | **9.2** | **9.4** |
| Annual (period) change *(%)* | - | 127.0 | 23.0 | 18.3 | 9.9 | 29.1 | 2.0 |
| % of GDP(1) | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | n/a |
| % of total revenues | 0.4 | 0.9 | 1.1 | 1.3 | 1.3 | 1.5 | 1.2 |
| **Excise taxes** | **50.6** | **49.0** | **59.7** | **82.3** | **109.0** | **48.8** | **61.0** |
| Annual (period) change *(%)* | (3.0) | (3.1) | 22.0 | 37.8 | 32.3 | 53.7 | 25.1 |
| % of GDP(1) | 1.0 | 1.0 | 1.2 | 1.5 | 1.8 | 2.0 | n/a |
| % of total revenues | 4.4 | 4.2 | 5.1 | 6.7 | 8.1 | 8.0 | 8.0 |
| **Personal income tax** | **289.2** | **311.7** | **332.7** | **341.5** | **356.6** | **168.3** | **233.0** |
| Annual (period) change *(%)* | 15.2 | 7.8 | 6.7 | 2.6 | 4.4 | 4.4 | 38.5 |
| % of GDP(1) | 6.0 | 6.2 | 6.6 | 6.1 | 5.9 | 6.8 | n/a |
| % of total revenues | 25.3 | 26.7 | 28.4 | 27.6 | 26.6 | 27.7 | 30.7 |
| **Profit tax** | **103.6** | **103.7** | **127.2** | **109.9** | **170.1** | **97.9** | **166.1** |
| Annual (period) change *(%)* | (16.9) | 0.1 | 22.7 | (13.6) | 54.8 | 45.6 | 69.8 |
| % of GDP(1) | 2.1 | 2.1 | 2.5 | 2.0 | 2.8 | 4.0 | n/a |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| % of total revenues | 9.0 | 8.9 | 10.9 | 8.9 | 12.7 | 16.1 | 21.9 |
| **Customs duties** | **48.4** | **61.5** | **55.4** | **72.6** | **80.2** | **39.0** | **40.8** |
| Annual (period) change *(%)* | 4.5 | 27.0 | (9.9) | 30.9 | 10.6 | 19.9 | 4.5 |
| % of GDP(1) | 1.0 | 1.2 | 1.1 | 1.3 | 1.3 | 1.6 | n/a |
| % of total revenues | 4.2 | 5.3 | 4.7 | 5.9 | 6.0 | 6.4 | 5.4 |
| **Stamp duties** | **39.3** | **32.4** | **33.3** | **37.1** | **37.9** | **15.8** | **17.2** |
| Annual (period) change (%) | 44.0 | (17.5) | 2.8 | 11.4 | 2.0 | 5.1 | 8.3 |
| % of GDP(1) | 0.8 | 0.6 | 0.7 | 0.7 | 0.6 | 0.6 | n/a |
| % of total revenues | 3.4 | 2.8 | 2.8 | 3.0 | 2.8 | 2.6 | 2.3 |
| **Presumptive tax(2)** | **4.9** | **3.1** | **3.2** | **3.6** | **-** | **-** | **-** |
| Annual (period) change (%) | (56.0) | (36.1) | 3.1 | 12.3 | - | - | - |
| % of GDP(1) | 0.1 | 0.1 | 0.1 | 0.1 | - | - | - |
| % of total revenues | 0.4 | 0.3 | 0.3 | 0.3 | - | - | - |
| **Other taxes** | **83.1** | **71.7** | **63.6** | **88.6** | **104.1** | **55.4** | **59.8** |
| Annual (period) change (%) | (4.1) | (13.7) | (11.3) | 39.2 | 17.5 | 19.1 | 7.9 |
| % of GDP(1) | 1.7 | 1.4 | 1.3 | 1.6 | 1.7 | 2.2 | n/a |
| % of total revenues | 7.3 | 6.1 | 5.4 | 7.2 | 7.8 | 9.1 | 7.9 |
| **Grants** | **17.3** | **29.9** | **31.4** | **14.6** | **11.2** | **3.8** | **6.7** |
| Annual (period) change (%) | 30.0 | 73.3 | 5.1 | (53.4) | (23.2) | (2.6) | 78.2 |
| % of GDP(1) | 0.4 | 0.6 | 0.6 | 0.3 | 0.2 | 0.2 | n/a |
| % of total revenues | 1.5 | 2.6 | 2.7 | 1.2 | 0.8 | 0.6 | 0.9 |
| **Other revenues** | **63.4** | **70.0** | **60.0** | **65.2** | **72.3** | **29.8** | **38.4** |
| Annual (period) change (%) | 10.9 | 10.4 | (14.2) | 8.6 | 11.0 | 9.6 | 28.9 |
| % of GDP(1) | 1.3 | 1.4 | 1.2 | 1.2 | 1.2 | 1.2 | n/a |
| % of total revenues | 5.5 | 6.0 | 5.1 | 5.3 | 5.4 | 4.9 | 5.1 |

Note:

(1) Calculated as a percentage of Armenia's nominal GDP.

(2) The past "presumptive" tax regime, which applied to activities such as gambling, ended on 31 December 2017, replaced by an interim "patent" tax regime of such activities in effect in 2018-2019 (and the revenues generated thereby are classified as "Other taxes" for the purposes of this table), which in turn will be replaced by a new regime of licencing fees effective 1 January 2020 – see "*—Armenian Tax System—Tax Structure—Other taxes*."

*Source:* Ministry of Finance.

### *Expenditures*

The Government's largest areas of spending are: (i) social welfare, which accounted for 28.8% of expenditures in 2018; (ii) defence, which accounted for 16.5% of expenditures in 2018; and (iii) general public services, which accounted for 9.6% of expenditures in 2018. Social welfare includes retirement, survivor and disability pensions, allowances to parents of newborn children, as well as certain other social disbursements, and general public services include interbudgetary transfers to local governments and expenses on legislative and executive affairs, financial and fiscal affairs, general research and other administrative expenses.

Total expenditures have grown over the past years, from AMD1,235.1 billion in 2014 to AMD1,447.1 billion in 2018, an increase of 17.2%. In the three largest areas of Government spending (based on year-end 2018 figures), expenditures grew by 15.4% between 2014 and 2018, with social welfare spending increasing by 21.6%, defence spending increasing by 25.3% and general public services decreasing by 10.4%.

General public services include capital/infrastructure spending, which in 2014 stood at AMD133.7 billion, in 2015 at AMD170.1 billion, in 2016 at AMD167.3 billion, in 2017 at AMD237.0 billion and in 2018 at AMD148.1 billion.

In the six months ended 30 June 2019, expenditures increased by 4.3%, compared to the six months ended 30 June 2018, driven mainly by spending growth in social welfare.

Between 2014 and 2018, debt service payments increased by 125.6%, from AMD61.6 billion in 2014 to AMD139.0 billion in 2018. This increase was driven by growth in interest payments on Internal Public Debt incurred by the Government, which rose from AMD33.1 billion in 2014 to AMD64.0 billion in 2018, and on External Public Debt incurred by the Government, which rose from AMD28.6 billion in 2014 to AMD75.0 billion in 2018. See "*Public Debt and Related Matters*."

The following table sets forth certain additional information about State Budget expenditures for the periods indicated:

## State Budget Expenditures

| | For the year ended 31 December | | | | | For the period ended March 31 | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2018 | 2019 |
| | *(AMD billions, except percentages)* | | | | | | |
| **Debt service** | **61.6** | **74.1** | **98.3** | **122.1** | **139.0** | **68.3** | **73.1** |
| Annual (period) change *(%)* | 31.9 | 20.2 | 32.7 | 24.3 | 13.8 | 16.8 | 7.1 |
| % of GDP[1] | 1.3 | 1.5 | 1.9 | 2.2 | 2.3 | 2.8 | n/a |
| % of total expenditures | 5.0 | 5.3 | 6.8 | 8.1 | 9.6 | 11.2 | 11.5 |
| % of tax revenues and duties | 5.8 | 6.9 | 9.1 | 10.5 | 11.0 | 11.9 | 10.2 |
| **Social welfare** | **342.5** | **383.7** | **396.8** | **409.0** | **416.6** | **195.6** | **216.0** |
| Annual (period) change *(%)* | 15.2 | 12.0 | 3.4 | 3.1 | 1.9 | (0.7) | 10.4 |
| % of GDP[1] | 7.1 | 7.6 | 7.8 | 7.3 | 6.9 | 7.9 | n/a |
| % of total expenditures | 27.7 | 27.2 | 27.4 | 27.2 | 28.8 | 32.0 | 33.9 |
| % of tax revenues and duties | 32.2 | 35.9 | 36.8 | 35.3 | 33.1 | 34.1 | 30.3 |
| **Defence** | **190.4** | **198.5** | **225.9** | **294.4** | **238.5** | **82.6** | **79.2** |
| Annual (period) change *(%)* | 4.6 | 4.2 | 13.8 | 30.4 | (19.0) | (6.7) | (4.2) |
| % of GDP[1] | 3.9 | 3.9 | 4.5 | 5.3 | 4.0 | 3.3 | n/a |
| % of total expenditures | 15.4 | 14.1 | 15.6 | 19.6 | 16.5 | 13.5 | 12.4 |
| % of tax revenues and duties | 17.9 | 18.6 | 20.9 | 25.4 | 19.0 | 14.4 | 11.1 |
| **General public services** | **155.6** | **207.3** | **193.8** | **154.9** | **139.4** | **63.6** | **67.3** |
| Annual (period) change *(%)* | 10.1 | 33.2 | (6.5) | (20.1) | (10.0) | (20.9) | 5.8 |
| % of GDP[1] | 3.2 | 4.1 | 3.8 | 2.8 | 2.3 | 2.6 | n/a |
| % of total expenditures | 12.6 | 14.7 | 13.4 | 10.3 | 9.6 | 10.4 | 10.6 |
| % of tax revenues and duties | 14.6 | 19.4 | 18.0 | 13.4 | 11.1 | 11.1 | 9.4 |
| **Education** | **115.8** | **122.3** | **122.4** | **124.4** | **121.6** | **52.1** | **53.5** |
| Annual (period) change *(%)* | 12.3 | 5.6 | 0.1 | 1.6 | (2.2) | 0.8 | 2.6 |
| % of GDP[1] | 2.4 | 2.4 | 2.4 | 2.2 | 2.0 | 2.1 | n/a |
| % of total expenditures | 9.4 | 8.7 | 8.4 | 8.3 | 8.4 | 8.5 | 8.4 |
| % of tax revenues and duties | 10.9 | 11.5 | 11.3 | 10.7 | 9.7 | 9.1 | 7.5 |
| **Public order, security and judiciary** | **104.8** | **122.0** | **120.3** | **122.5** | **123.1** | **53.8** | **58.2** |
| Annual (period) change *(%)* | 14.7 | 16.4 | (1.4) | 1.9 | 0.5 | 6.4 | 8.2 |
| % of GDP[1] | 2.2 | 2.4 | 2.4 | 2.2 | 2.0 | 2.2 | n/a |
| % of total expenditures | 8.5 | 8.7 | 8.3 | 8.1 | 8.5 | 8.8 | 9.1 |
| % of tax revenues and duties | 9.8 | 11.4 | 11.1 | 10.6 | 9.8 | 9.4 | 8.2 |
| **Economic relations[2]** | **83.3** | **109.8** | **131.1** | **129.5** | **112.2** | **40.7** | **34.6** |
| Annual (period) change *(%)* | (33.1) | 31.9 | 19.3 | (1.2) | (13.4) | 13.6 | (15.0) |
| % of GDP[1] | 1.7 | 2.2 | 2.6 | 2.3 | 1.9 | 1.6 | n/a |
| % of total expenditures | 6.7 | 7.8 | 9.0 | 8.6 | 7.8 | 6.7 | 5.4 |
| % of tax revenues and duties | 7.8 | 10.3 | 12.1 | 11.2 | 8.9 | 7.1 | 4.9 |
| **Health care** | **76.6** | **86.1** | **88.6** | **83.2** | **79.6** | **31.5** | **34.3** |
| Annual (period) change (%) | 19.1 | 12.3 | 3.0 | (6.1) | (4.4) | (6.0) | 9.1 |
| % of GDP[1] | 1.6 | 1.7 | 1.7 | 1.5 | 1.3 | 1.3 | n/a |
| % of total expenditures | 6.2 | 6.1 | 6.1 | 5.5 | 5.5 | 5.2 | 5.4 |
| % of tax revenues and duties | 7.2 | 8.1 | 8.2 | 7.2 | 6.3 | 5.5 | 4.8 |
| **Other reserve funds[3]** | **47.0** | **29.9** | **15.1** | **20.7** | **34.3** | **5.6** | **-** |
| Annual (period) change (%) | 8.8 | (36.4) | (49.4) | 36.8 | 65.7 | (21.7) | (100.0) |
| % of GDP[1] | 1.0 | 0.6 | 0.3 | 0.4 | 0.6 | 0.2 | n/a |
| % of total expenditures | 3.8 | 2.1 | 1.0 | 1.4 | 2.4 | 0.9 | - |
| % of tax revenues and duties | 4.4 | 2.8 | 1.4 | 1.8 | 2.7 | 1.0 | - |
| **Tourism, culture and religion** | **21.4** | **30.4** | **26.6** | **26.0** | **25.3** | **11.1** | **13.3** |
| Annual (period) change (%) | 14.8 | 42.0 | (12.4) | (2.3) | (2.7) | 2.1 | 20.4 |
| % of GDP[1] | 0.4 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | n/a |
| % of total expenditures | 1.7 | 2.2 | 1.8 | 1.7 | 1.7 | 1.8 | 2.1 |
| % of tax revenues and duties | 2.0 | 2.8 | 2.5 | 2.2 | 2.0 | 1.9 | 1.9 |
| **Housing and public services** | **31.3** | **39.2** | **25.6** | **12.6** | **11.7** | **3.7** | **4.8** |
| Annual (period) change (%) | 44.0 | 25.3 | (34.6) | (50.8) | (7.1) | (7.3) | 29.5 |
| % of GDP[1] | 0.6 | 0.8 | 0.5 | 0.2 | 0.2 | 0.1 | n/a |
| % of total expenditures | 2.5 | 2.8 | 1.8 | 0.8 | 0.8 | 0.6 | 0.7 |
| % of tax revenues and duties | 2.9 | 3.7 | 2.4 | 1.1 | 0.9 | 0.6 | 0.7 |
| **Environmental protection** | **4.7** | **5.7** | **4.5** | **5.4** | **5.7** | **1.9** | **2.4** |
| Annual (period) change (%) | 1.6 | 20.9 | (21.1) | 21.2 | 5.3 | (0.7) | 28.3 |
| % of GDP[1] | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | n/a |
| % of total expenditures | 0.4 | 0.4 | 0.3 | 0.4 | 0.4 | 0.3 | 0.4 |
| % of tax revenues and duties | 0.4 | 0.5 | 0.4 | 0.5 | 0.5 | 0.3 | 0.3 |

Notes:

(1) Calculated as a percentage of Armenia's nominal GDP.

(2) Economic relations consists of expenditures on various sectors of the economy, including agriculture, forestry, irrigation, energy, mining, transport, communications and tourism.

(3) During the periods under review, "other reserve funds" consisted of solely the Government Reserve Fund.

*Source:* Ministry of Finance.

## Fiscal Relations with Local Governments

The two main sources of funding for local governments are tax revenues (both state and local) and non-tax transfers from the State Budget. Land and real property tax collections collected by the Government are allocated directly to local governments; all other taxes are transferred to the State Budget. The Government also allocates equalisation subsidies and other non-tax transfers to local governments.

## Armenian Tax System

### *Reforms*

On 4 October 2016, the National Assembly adopted a new tax code (the "**Tax Code**") which entered into force on 1 January 2018. The Tax Code replaced various laws on different types of taxes, thus simplifying the tax system and promoting stability and predictability of tax legislation.

In June 2019, the National Assembly adopted the 2019 Tax Reform. Pursuant to the 2019 Tax Reform, Armenia shall switch to a flat taxation system with the personal tax rate set at 23% for all taxpayers from 1 January 2020. The tax rate shall then be gradually lowered to 20% by 2023. Pursuant to the 2019 Tax Reform, the profit tax rate shall be lowered from 20% to 18% from 1 January 2020. Over 2020-2023, excise tax rates will be increased as part of the 2019 Tax Reform.

Reform of property taxation is also under active discussion, including application of a new methodology of assessment for real estate taxation based on market practices with tax collection based on this new basis starting in 2021. In conjunction with these reforms, in 2019 the Government is actively conducting studies and developing action plans to ensure broader and more equitable compliance by taxpayers and combat deep-seated tax evasion. By improving tax compliance, the Government expects to raise the tax-to-GDP ratio in the medium term. See "*Risk Factors—Risk Factors Relating to Armenia—Tax Collection and 2019 Tax Reform*."

### *Tax Structure*

Armenia's tax structure includes both direct taxation, such as personal income taxes and corporate profit taxes, and indirect taxation, such as VAT. In addition, Armenia collects excise taxes, customs duties, stamp duties, patent tax and certain other taxes, and administers a regime of social contributions. See "*Economy of Armenia—Labour and Social Policy—Pensions and Disability*" for a discussion of Armenia's pension system.

*VAT*

VAT, which is a general consumption tax levied on the supply of goods and services in Armenia and on the supply of goods imported into Armenia, is the largest single source of State Budget revenues. The general VAT rate for the supply of goods and services and the import of goods is 20%. Certain items – such as the supply of goods and services to educational, scientific, social and religious institutions, the sale of certain precious stones and the provision of insurance and re-insurance and banks' services – are exempt from VAT. The payment of VAT on imports related to investment programmes may be postponed for up to three years following import.

VAT accounted for 38.5%, 36.3%, 33.4%, 32.8%, and 32.7% of State Budget revenues in 2014, 2015, 2016, 2017 and 2018, respectively. In the six months ended 30 June 2018 and 2019, VAT accounted for 31.9% and 34.6%, respectively, of State Budget revenues.

*Excise Taxes*

Excise taxes are currently levied, among other things, on alcoholic beverages, tobacco and tobacco substitutes and certain hydrocarbon products (on imports or domestic production). Domestic and imported products subject to excise are treated equally. Excise tax is paid upon sale or import.

The following table shows current rates of excise tax for certain products for the periods indicated below. Current legislation applies both *ad valorem* and fixed excise tax rates. From 1 January 2020, only fixed excise tax rates will be applied.

**Excise Tax Rates**

| *Product* | *Excise Rates* | *Period* |
|---|---|---|
| ***Alcohol products*** | | |
| Beer | 30%, but not less than U.S.$0.22 per litre | 2019 |
| | U.S.$0.27 per litre | 2020-2023 |
| Wine | 10%, but not less than U.S.$0.21 per litre | 2019 |
| | U.S.$0.31 per litre | 2020-2023 |
| Alcoholic beverages | 84%, but not less than U.S.$1.75 per litre | 2019 |
| | U.S.$3.27 per litre | 2020 |
| | U.S.$4.26 per litre | 2021 |
| | U.S.$5.54 per litre | 2022 |
| | U.S.$7.20 per litre | 2023 |
| Ethyl spirits | 50%, but not less than U.S.$1.89 per litre | 2019 |
| | U.S.$5.46 per litre | 2020 |
| | U.S.$7.10 per litre | 2021 |
| | U.S.$9.24 per litre | 2022 |
| | U.S.$11.97 per litre | 2023 |
| ***Tobacco products*** | | |
| Tobacco products | 15%, but not less than U.S.$17.57 per 1,000 items | 2019 |
| | U.S.$20.21 per 1,000 items | 2020 |
| | U.S.$23.24 per 1,000items | 2021 |
| | U.S.$26.73 per 1,000 items | 2022 |
| | U.S.$30.74 per 1,000 items | 2023 |
| Manufactured tobacco substitutes | U.S.$3.15/kg | 2020-2023 |
| ***Hydrocarbon products*** | | |
| Crude oil, mineral oils | U.S.$56.72 per tonne | 2020-2023 |
| Natural gas and other gas-like hydrocarbons | U.S.$2.1 per tonne | 2020-2023 |
| Gasoline | U.S.$84.04 per tonne | 2020-2023 |
| Diesel fuel | U.S.$27.31 per tonne | 2020-2023 |
| Lubricating oil | 50%, but not less than U.S.$0.84/kg | 2019 |
| | U.S.$1.05/kg | 2020-2023 |

Over the next four years, excise tax rates for all products (excluding ethyl spirits, alcoholic beverages, tobacco products) will be increased by the following coefficients:

**Excise Tax Rates Coefficients**

| | From 1 January | | | |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| Coefficient | 1.0 | 1.03 | 1.06 | 1.09 |

Excise tax rates will also be indexed for inflation.

Excise taxes accounted for 4.4%, 4.2%, 5.1%, 6.7%, and 8.1% of State Budget revenues in 2014, 2015, 2016, 2017 and 2018, respectively. In the six months ended 30 June 2018 as well as for in the six months ended 30 June 2019, excise taxes accounted for 8.0% of State Budget revenues.

*Personal Income Tax*

A resident, individual taxpayer is required to pay tax on income generated in Armenia or in any other country, whereas a non-resident, individual taxpayer is taxed only on income earned in Armenia. Currently, personal income tax is assessed on the following scale:

1) (i) for monthly taxable income up to AMD150,000, a rate of 23.0%; (ii) for monthly taxable income between AMD150,000 and AMD2,000,000, AMD34,500 plus 28% of the amount over AMD150,000; and (iii) for monthly taxable income above AMD2,000,000, AMD552,000 plus 36% of the amount over AMD2,000,000;

2) (i) for annual taxable income up to AMD1,800,000, a rate of 23%; (ii) for annual taxable income between AMD1,800,000 and AMD24,000,000, AMD414,000 plus 28% of the amount over AMD1,800,000; and (iii) for annual taxable income above AMD24,000,000, AMD663,0000 plus 36% of the amount over AMD24,000,000.

Certain types of income are exempt from the personal income tax, including Government disbursements to certain categories of vulnerable people, pension payments and insurance compensation. Pursuant to the 2019 Tax Reform, Armenia shall switch to a flat taxation system with the personal tax rate set at 23% for all taxpayers from 1 January 2020. The tax rate shall then be gradually lowered to 20% by 2023 (to 22% from 2021, to 21% from 2022 and to 20% from 2023).

Personal income taxes accounted for 25.3%, 26.7%, 28.4%, 27.6%, and 26.6% of State Budget revenues in 2014, 2015, 2016, 2017 and 2018, respectively. In the six months ended 30 June 2018 and 2019, personal income taxes accounted for 27.7% and 30.7%, respectively, of State Budget revenues. In absolute terms, personnel income tax receipts have increased by 23.3% between 2014 and 2018, from AMD289.2 billion in 2014 to AMD356.6 billion in 2018, reflecting the growth in the Armenian economy.

*Profit Tax*

Profit tax is payable by resident and non-resident legal entities. Legal entities resident in Armenia are required to pay profit tax on all profits generated in Armenia and/or any other country, while non-resident legal entities are required to pay profit tax only on profits generated in Armenia. The resident profit tax rate is 20%. The non-resident profit tax rate is 20%, except in respect of passive income, which is taxed at 10%, and certain types of insurance compensation, which is taxed at 5%. Profits from the sale of agricultural products are exempt from the profit tax. Pursuant to the 2019 Tax Reform, the profit tax rate shall be lowered from 20% to 18% from 1 January 2020.

Profit tax accounted for 9.0%, 8.9%, 10.9%, 8.9% and 12.7% of State Budget revenues in 2014, 2015, 2016, 2017 and 2018, respectively. In the six months ended 30 June 2018 and 2019, profit tax accounted for 16.1% and 21.9%, respectively, of State Budget revenues. In absolute terms, profit tax receipts increased significantly in 2018 (AMD170.1 billion versus AMD109.9 billion in 2017) and the first half 2019 (AMD166.1 billion versus AMD97.9 billion for first half 2018) primarily reflecting recent improvements in profit tax collection.

*Customs Duties*

As a result of Armenia's accession into the EEU, from 1 January 2015 customs duties have been regulated in accordance with EEU principles. See "*External Sector—International Trade Agreements—Barriers to Trade*."

Customs duties accounted for 4.2%, 5.3%, 4.7%, 5.9%, and 6.0% of State Budget revenues in 2014, 2015, 2016, 2017 and 2018, respectively. In the six months ended 30 June 2018 and 2019, customs duties accounted for 6.4% and 5.4%, respectively, of State Budget revenues.

*Other Taxes*

The Government also imposes various other taxes, including stamp duties, property tax, land tax, turnover tax and patent tax. The patent tax assigns fixed lump-sum payments to certain groups of taxpayers based on business activity. Certain gambling activities are currently subject to the patent tax. Patent tax will be abolished from 1 January 2020 when a new regime of licensing fees for the gambling and financial sectors will apply.

### ***International Taxation Agreements***

The Government has entered into double taxation treaties with 46 states, including Russia and Georgia. In July 2013, Armenia became a member of the International Convention on the Simplification and Harmonisation of Customs Procedures, as amended in 2006 (the "**Kyoto Convention**"). The Kyoto Convention was drafted in an effort to standardise and simplify international customs procedures. In 2017, Armenia joined the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the "**BEPS Convention**").

### ***Beneficial Tax Regimes***

Armenian tax legislation also extends certain tax benefits to the following regimes:

*International Development Organisations*

Armenia has agreements in place with certain international development organisations, such as the World Bank, ADB KfW and the United States Agency for International Development, according to which the Government bears all tax liabilities incurred by such organisations in connection with their work in Armenia.

*Free Economic Zones (FEZs)*

Armenia opened its first FEZ in July 2013 – the "Alliance" FEZ ("**Alliance**"). Located in Yerevan, the Alliance FEZ has 55,800 square metres of industrial space and 37,900 square metres of office space and is open to businesses specialising in certain high-tech sectors, such as precision engineering, biotechnology, pharmaceuticals, information technology, alternative energy and telecoms. Alliance, in which currently 12 enterprises have the right to operate, is managed by Sitronics Armenia, a unit of the Russian company Sistema.

Armenia opened its second FEZ in 2014 – the "MERIDIAN" FEZ ("**MERIDIAN**"). Located in Yerevan, the MERIDIAN FEZ specialises in jewellery- and watch-making as well as stone cutting. An investment of U.S.$14 million was made in connection with the opening of MERIDIAN, which has led to the creation of over 120 jobs.

Armenia opened its third FEZ in 2017 – the "Meghri" FEZ ("**Meghri**"). The Meghri FEZ is located on the border with Iran and has facilities for a wide range of economic sectors, including agriculture, manufacturing, trade, cargo shipment and tourism.

Armenia opened its fourth FEZ in 2018 – the "Hrazdan" FEZ ("**Hrazdan**"). Located in town of Hrazdan in east-central Armenia, the Hrazdan FEZ is aimed at creating a favourable environment for developing and supporting innovative technological enterprises including such areas as digital assets, mining and others.

FEZ residents are exempt from VAT, customs duties, profit and property taxes, as well as currency restrictions, and enjoy the free movement of capital, profits and dividends.

## MONETARY AND FINANCIAL SYSTEM

### Central Bank of Armenia

The CBA is the central bank of the Republic of Armenia. It is an autonomous public entity governed by the Law of the Republic of Armenia on the Central Bank of Armenia (the "**CBA Law**"), which was adopted on 30 June 1996 by the National Assembly, and subsequently amended.

The CBA Law sets out the objectives, authority, structure and management of the CBA. The primary objective of the CBA as set by the Constitution is maintenance of price and financial stability.

For the purposes of preserving price stability in Armenia, the CBA develops, approves, and conducts monetary policy. The CBA Law sets out further objectives of the CBA, including the creation of requisite conditions for stability, liquidity, solvency and the normal functioning of the banking sector, and the creation and development of an efficient payment and settlement system. The CBA Law establishes the CBA's relationship with Government authorities, banks and other legal entities. The CBA Law establishes the CBA as the authority responsible for the issuance of domestic currency and for the organisation and regulation of its circulation. The CBA is responsible for implementing monetary and foreign exchange policies, supervising the banking sector, regulating other financial services (including insurance and trading in securities), as well as holding foreign reserves and acting as the financial agent and banker for the Government. The CBA's website is www.cba.am.

The CBA is independent of the Government and National Assembly. The Constitution guarantees the independence of the CBA.

### CBA Strategy for 2018-2020

The CBA's strategic programme for 2018-2020 is based on two strategic objectives:

- *Price stability*. Price stability is defined by the CBA as a process of anchoring public expectations around the inflation target, so that a price change does not affect market participants' behaviour related to spending, savings, investment and other decisions. The achievement of this strategic objective requires improving the forecasting and policy analysis system, as well as increasing confidence in the monetary policy.

- *Financial stability*. Financial stability is defined by the CBA as a state in which the financial system operates smoothly (without undesirable impacts on present and future performance of the economy), while being resistant to adverse shocks. The achievement of this strategic objective requires improvement and development of macroprudential analysis and mechanisms to identify and access systemic risks, as well as ensuring transparency and clear communication of macroprudential policy decisions and decision-making processes.

In addition to the implementation of these two strategic objectives, the CBA carries out the following critical functions: (i) creating an organised framework for the issuance and circulation of currency; (ii) combating money laundering and terrorism financing; (iii) regulating and protecting consumer rights; and (iv) effectively managing Armenia's international reserves.

### CBA Management

The supreme governing body of the CBA is the board (the "**CBA Board**"), which consists of the chairman, two deputies and five members. The CBA Board members are appointed by the National Assembly for a period of six years.

The chairman of the CBA is the highest official of the CBA. In the absence of the chairman, or if the chairman is unable to perform his or her duties, the chairman is substituted by one of the deputy chairmen, and in case of the deputy chairmen's absence, or the inability of the deputy chairmen to perform their duties, the eldest member of the CBA Board shall act in his place. The chairman coordinates the work of the CBA, represents the CBA in Armenia, overseas and in meetings of international organisations, presides over the CBA Board sessions, ensures implementation of legal acts adopted by the CBA Board. The chairman and the deputy chairmen as well as members of the CBA Board cannot be members of any political party or engage in political activities, may not hold offices, which are not related to their status, in state or municipal office titles and may not carry out business activities or perform other paid work, except for scientific, educational and creative activities. Minutes of the CBA Board meetings are published on the CBA website.

As of the date of this Prospectus, the chairman of the CBA Board is Mr. Arthur Javadyan (whose current terms ends in 2020) and the deputy chairmen are Mr. Nerses Yeritsyan and Mr. Vakhtang Abrahamyan. The other members of the CBA Board are Messrs. Armenak Darbinyan, Oleg Aghasyan, Ashot Mkrtchyan, Artur Stepanyan and Martin Galstyan.

**Monetary Policy of the CBA**

***Overview***

One of the CBA's primary policy objectives is to ensure price stability. Since 2006, the CBA has adopted a policy of inflation targeting to meet this objective. An inflation target is reflected in the inflation reports prepared by the CBA, the MTEF and the State Budget. Inflation reports consist of (i) a monetary policy programme with a forecast horizon and (ii) a report on the implementation of such monetary policy programme. Each year, the first quarter's inflation reports are submitted to, although not subject to approval of, the National Assembly. Since January 2006, the CBA has maintained an annual inflation target of 4%, with a tolerance band of plus/minus 1.5%.

The CBA, and, in particular, its Monetary Policy Department (the "**MPD**"), is responsible for the formulation and implementation of Armenia's monetary and foreign exchange policies. The MPD is composed of five divisions – the Monetary and Fiscal Analysis Division, the External Sector Analysis and Forecasting Division, the Real Sector Analysis and Forecasting Division, the Macroeconomic Forecasting Division and the Models Development Division. A team within the MPD, known as the Forecasting Team, meets eight times per year in order to discuss monetary policy, present inflation forecasts for the upcoming 12 quarters and advise the chairman of the CBA on policies to minimise deviations from the targeted rate of inflation through interest rate adjustments with least costs in the real economy. The Forecasting Team also assists in the preparation of inflation reports. The CBA's interest rates and the press release on policy rates are published on the CBA website in Armenian and English.

In 2011, the CBA established a consultative body known as the Financial Stability and Special Resolution Committee, which is responsible for the assessment of financial stability. The Financial Stability and Special Resolution Committee is composed of the chairman of the CBA and heads of the Financial System Stability and Development Department, Financial Supervisory Department and Financial System Regulation Department. The Financial Stability and Special Resolution Committee employs various tools to monitor the stability of Armenia's financial system, including various stress-testing models, identifies potential risks to the stability of Armenia's financial system, considers appropriate measures to ensure financial stability and suggests policies and other actions. The Financial Stability and Special Resolution Committee meets every quarter, although in extraordinary situations a special session may be convened.

***Implementation***

Since 1 July 2006, the CBA has been implementing an inflation-targeting strategy. The CBA carries out inflation targeting mainly through adjustments in the interest rate on short-term loans from the CBA to the domestic banking system (the "**Refinancing Rate**"). From 12 February 2014 to 23 December 2014, the Refinancing Rate was decreased gradually from 7.5% to 6.75% to counteract deflationary pressures coming both from sluggish growth in the global economy, as well as weakening domestic demand. From 24 December 2014 to 10 February 2015, the CBA increased the Refinancing Rate to 10.5% to stabilise the increase of inflation expectations coming from the regional currency crisis. Following this increase, the CBA kept it stable for six months and then, beginning on 11 August 2015, when the Refinancing Rate was decreased to 10.25%, the CBA instituted a series of further reductions as both inflation and inflation expectations were decreasing. On 14 February 2017, the Refinancing Rate was further decreased to 6.0% and remained unchanged till 30 January 2019 when it was decreased to 5.75% in response to downward pressure on inflation, reflecting demand-side factors including a slowdown in consumption and supply-side factors including muted pressure from food prices. On 10 September 2019, the CBA announced the reduction of the Refinancing Rate to 5.5%.

The following table sets forth the Refinancing Rate for the dates indicated:

**Refinancing Rates**

| Dates | Refinancing Rate |
|---|---|
| 11 September 2019 – current | 5.5% |
| 30 January 2019 – 10 September 2019 | 5.75% |
| 15 February 2017 – 29 January 2019 | 6.0% |
| 28 December 2016 – 14 February 2017 | 6.25% |
| 16 November 2016 – 27 December 2016 | 6.5% |
| 28 September 2016 – 15 November 2016 | 6.75% |
| 17 August 2016 – 27 September 2016 | 7.25% |
| 29 June 2016 – 16 August 2016 | 7.5% |
| 18 May 2016 – 28 June 2016 | 7.75% |
| 30 March 2016 – 17 May 2016 | 8.25% |
| 17 February 2016 – 29 March 2016 | 8.5% |
| 23 December 2015 – 16 February 2016 | 8.75% |
| 11 November 2015 – 22 December 2015 | 9.75% |
| 12 August 2015 – 10 November 2015 | 10.25% |
| 25 March 2015 – 11 August 2015 | 10.5% |
| 13 March 2015 – 24 March 2015 | 10.5% |
| 11 February 2015 – 12 March 2015 | 10.5% |
| 22 January 2015 – 10 February 2015 | 9.5% |
| 24 December 2014 – 21 January 2015 | 8.5% |
| 03 December 2014 – 23 December 2014 | 6.75% |
| 25 November 2014 – 2 December 2014 | 6.75% |
| 24 September 2014 – 24 November 2014 | 6.75% |
| 13 August 2014 – 23 September 2014 | 6.75% |
| 25 June 2014 – 12 August 2014 | 7.0% |
| 14 May 2014 – 24 June 2014 | 7.25% |
| 12 February 2014 – 13 May 2014 | 7.5% |
| 25 December 2013 – 11 February 2014 | 7.75% |

*Source*: CBA.

Through its operations with the commercial banks, the CBA targets the interbank short-term borrowing rate to be close to the Refinancing Rate. To manage short-term deviations in liquidity and interest rates, the CBA uses various adjustment instruments, including repo, reverse repo, deposit auction and foreign currency swap transactions. The CBA also employs a variety of structural instruments that are designed to encourage long-term adjustments to liquidity and interest rates. The CBA also engages in the purchase and sale of Government securities on the domestic market. Only treasury bills issued by the CBA and the Ministry of Finance, or securities issued by certain commercial entities which have been approved as eligible assets by the CBA Board, can be used in repo transactions.

Armenian banks may make use of the CBA's standing facilities, consisting of one-day Lombard repos and one-day deposit facilities. Lombard repos expand liquidity in the financial system, while deposit facilities have the effect of absorbing market liquidity. Through the use of Lombard repos and deposit facilities, an interest rate corridor of +/- 1.5 % is set for the interbank market, thereby limiting interest rate volatility. The only deviation from this approach came during the 2014 regional currency crisis when the CBA reacted to a sharp increase of inflation expectations by using its Lombard rate. For the period from 26 November 2014 up until 25 March 2015, the Lombard rate served as an interest rate indicator for the policy stance. To counteract the inflation pressures, the Lombard rate increased from 8.25% to 10.25% on 25 November 2014 and then sharply increased to 21% on 3 December 2014. After the stabilisation of the situation in mid-December 2014, the Lombard rate was normalized with a series of subsequent stepped decreases to 12% on 24 March 2015. After that, the Lombard rate has remained at 1.5% above the Refinancing Rate, moving in tandem.

The following table sets forth the rates on the CBA's standing facilities for the dates indicated:

**Standing Facilities**

| Dates | One-day Deposit Facility Rate | One-day Lombard Repo Rate |
|---|---|---|
| 11 September 2019 – current ........................ | 4.0% | 7.0% |
| 30 January 2019 – 10 September 2019 ......... | 4.25% | 7.25% |
| 15 February 2017 – 29 January 2019 ........... | 4.5% | 7.5% |
| 28 December 2016 – 14 February 2017 ........ | 4.75% | 7.75% |
| 16 November 2016 – 27 December 2016...... | 5.0% | 8.0% |
| 28 September 2016 – 15 November 2016 ..... | 5.25% | 8.25% |
| 17 August 2016 – 27 September 2016 .......... | 5.75% | 8.75% |
| 29 June 2016 – 16 August 2016.................... | 6.0% | 9.0% |
| 18 May 2016 – 28 June 2016 ........................ | 6.25% | 9.25% |
| 30 March 2016 – 17 May 2016..................... | 6.75% | 9.75% |
| 17 February 2016 – 29 March 2016.............. | 7.0% | 10.0% |
| 23 December 2015 – 16 February 2016 ........ | 7.25% | 10.25% |
| 11 November 2015 – 22 December 2015...... | 8.25% | 11.25% |
| 12 August 2015 – 10 November 2015........... | 8.75% | 11.75% |
| 25 March 2015 – 11 August 2015................. | 9.0% | 12.0% |
| 13 March 2015 – 24 March 2015.................. | 9.0% | 13.5% |
| 11 February 2015 – 12 March 2015.............. | 9.0% | 14.5% |
| 22 January 2015 – 10 February 2015 ............ | 8.0% | 17.0% |
| 24 December 2014 – 21 January 2015 .......... | 7.0% | 20.0% |
| 3 December 2014 – 23 December 2014 ........ | 5.25% | 21.0% |
| 25 November 2014 – 2 December 2014........ | 5.25% | 10.25% |
| 13 August 2014 – 24 November 2014........... | 5.25% | 8.25% |
| 25 June 2014 – 12 August 2014.................... | 5.5% | 8.5% |
| 14 May 2014 – 24 June 2014 ........................ | 5.75% | 8.75% |
| 12 February 2014 – 13 May 2014 ................. | 6.0% | 9.0% |
| 25 December 2013 – 11 February 2014 ........ | 6.25% | 9.25% |

*Source*: CBA.

The CBA establishes minimum reserve requirements, which are determined separately for dram liabilities and foreign currency liabilities. Aside from the role in safeguarding the stability of the local banking sector, the minimum reserve requirements also serve as a tool of managing market liquidity in order to achieve a targeted interbank interest rate. Generally, changes of reserve requirements reflect dynamics in the financial sector stability and are directed at tackling identified risks. In mid-December 2014, when high inflation expectations made financial markets flow to foreign currency liquidity, the CBA sharply increased reserve requirements of foreign currency liabilities to be held daily in AMD from 12% to 24%. By increasing liquidity demand for AMD, the CBA ensured the transmission of the Refinancing Rate to the financial markets, which helped to stabilise the economy and restrain accelerating inflation.

The Armenian economy remains highly dollarised. As of 31 December 2018, residents' foreign currency deposits represented 51.8% of residents' all deposits and residents' foreign currency loans represented 54.1% of residents' all loans. The CBA believes that the de-dollarisation of the economy is to be propelled by the market participants' confidence in the monetary policy as a whole, and thus de-dollarisation may only be achieved through price stability and anchored inflation expectations. The strengthening of market participants' confidence in the monetary policy remains the long-term goal of the CBA. The CBA was able to maintain price stability despite the severe shock caused by the Russian recession in late 2014 and thus curtailed financial flows into foreign currency. Since 2015, residents' foreign currency deposits as a share of residents' all deposits and foreign currency loans as a share of residents' all loans have been gradually decreasing.

At the same time, the CBA has set a number of regulatory requirements aimed at banking sector de-dollarisation, in particular:

- The minimum reserve requirement is set at 2% of funds attracted in AMD, but at 18% of funds attracted in the foreign currency, of which 14% maintained in AMD and 4% in the foreign currency.

- In the course of the credit risk calculation, while calculating the capital adequacy ratio, assets denominated in the foreign currency carry a 50% higher risk-weighting than assets denominated in AMD.

- Loan loss provisioning for assets denominated in the foreign currency are set to be 20% higher than loan loss provisioning for assets denominated in AMD.

- The introduction of a differentiated deposit guarantee contribution system, according to which the deposit guarantee contributions made by a bank depends on the interest rate of the foreign currency deposit.

The CBA may adjust the above-mentioned instruments in order to readjust the level of dollarisation.

Residents' foreign currency deposits as a share of residents' all deposits accounted for 64.1% and 59.9% in 2015 and 2016, respectively, and 55.3% in 2017 and 51.8% in 2018. Residents' foreign currency loans as a share of residents' all loans accounted for 66.2%, 65.0%, 61.4% and 54.1% in 2015, 2016, 2017 and 2018, respectively.

**Monetary Aggregates**

The table below sets forth certain statistics relating to money aggregates in Armenia and in the Armenian banking sector as of the dates indicated:

**Money Aggregates**

| | As of 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** |
| | *(AMD millions, unless otherwise indicated)* | | | | |
| Currency in circulation | 348,359 | 345,507 | 390,918 | 445,155 | 476,996 |
| Broad money (M2) | 818,277 | 860,477 | 1,073,730 | 1,383,876 | 1,566,824 |
| Broad money (M2X) | 1,674,196 | 1,855,676 | 2,180,098 | 2,582,783 | 2,775,095 |
| Broad money (M2X) year-on-year growth rate (%) | 8.3 | 10.8 | 17.5 | 18.5 | 7.4 |
| Broad money (M2X) share of GDP[(1)] (%) | 34.7 | 36.8 | 43.0 | 46.4 | 46.2 |
| Reserve money | 886,765 | 921,325 | 1,042,299 | 1,032,005 | 1,215,585 |
| Reserve money year-on-year growth rate (%) | (0.1) | 3.9 | 13.1 | (1.0) | 17.8 |
| Deposits in drams[(2)] | 499,381 | 593,846 | 855,236 | 1,038,825 | 1,169,765 |
| Deposits in foreign currencies[(2)] | 1,258,133 | 1,357,261 | 1,558,124 | 1,585,767 | 1,787,531 |
| Loans in drams[(3)] | 730,729 | 727,519 | 900,568 | 1,028,288 | 1,377,125 |
| Loans in foreign currencies[(3)] | 1,457,627 | 1,391,994 | 1,535,513 | 1,656,294 | 1,751,446 |

Notes:

(1) Calculated as a percentage of nominal GDP.

(2) Includes deposits in commercial banks from non-residents and resident non-financial corporations, households, non-profit organisations and other financial organisations.

(3) Includes loans by commercial banks to non-residents and resident non-financial corporations, households, non-profit organisations and other financial organisations.

*Source:* CBA.

Monetisation of the Armenian economy, expressed as the ratio of broad money (M2X, which is M2 plus foreign exchange deposits) to nominal GDP, has increased in recent years: from 34.7% in 2014 to 46.2% in 2018.

The increase in monetary aggregates between 2014 and 2018 was due to growing money demand due to growth of the Armenian economy. Currency in circulation, broad money (M2) and reserve money increased over 2014-2018, as did the rate of increase in broad money (M2X) over 2014-2017: the rate of increase in broad money (M2X) was 8.3% in 2014, 10.8% in 2015, 17.5% in 2016, 18.5% in 2017. In 2018, the rate of increase in broad money (M2X) decreased to 7.4%. In 2018, currency in circulation increased by 7.2% (compared to 13.9% in 2017), residents' deposits in drams increased by 12.6% (compared to 21.5% in 2017), residents' deposits in foreign currencies increased by 12.7% (compared to 1.8% in 2017). The growth of both deposits and loans (in both drams and foreign currencies) during the years under review was mainly the result of economic expansion and an increase in financial intermediation, as well as an increase in competition between commercial banks. The CBA expects dram and foreign currency deposits to increase in the short term, despite a forecasted decline in remittances.

**Liquidity and Credit Aggregates**

The following table sets forth the liquidity and credit aggregates for the Armenian banking sector as of the dates indicated:

**Liquidity and Credit Aggregates**

| | As of 31 December | | | | | As of 30 June |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| | | | (AMD millions) | | | |
| Liquid assets (core)[(1)] | 768,739 | 873,797 | 1,136,871 | 1,316,239 | 1,260,454 | 1,333,736 |
| Short-term liabilities | 594,221 | 613,807 | 665,732 | 928,942 | 1,054,836 | 1,196,866 |
| Total loans[(2)] | 2,188,357 | 2,119,513 | 2,436,081 | 2,684,582 | 3,128,570 | 3,298,501 |
| Loans to resident public sector | 21,102 | 26,201 | 22,339 | 18,460 | 16,426 | 15,035 |
| Loans to resident private sector (excluding interbank loans) | 2,070,275 | 1,979,041 | 2,094,494 | 2,461,125 | 2,873,960 | 3,048,593 |
| Loans to non-residents | 96,979 | 114,271 | 319,248 | 204,997 | 238,184 | 234,872 |
| Domestic interbank loans[(3)] | 66,583 | 66,446 | 44,132 | 89,624 | 75,029 | 91,500 |

Notes:

(1) Core liquid assets include currency, deposits and other financial assets that are available either on demand or within three months or less.

(2) Total loans include loans by commercial banks to non-residents and resident non-financial corporations, households, non-profit organisations and other financial organisations. Total loans also include factoring, leasing and repo agreements.

(3) Domestic interbank loans are not included in total loans.

*Source:* CBA.

As of 31 December 2015, the liquid assets to short term-liabilities ratio was 142.4%, an increase from 129.4% as of 31 December 2014, due to liquid assets growing at a faster rate than short-term liabilities of banks. As of 31 December 2016, 2017 and 2018, the liquid assets to short-term liabilities ratio equalled 170.8%, 141.7% and 119.5%, respectively. The increase in the ratio as of 31 December 2016 was mainly the result of a 30.1% increase in highly liquid assets (compared to an 8.5% increase in short-term liabilities), whereas the decrease as of 31 December 2017 and 31 December 2018 was generally due to a 39.5% and 13.6% respective increase in short-term liabilities (compared to a 15.8% increase as of December 2017 and 4.2% decrease as of December 2018 in highly liquid assets).

The local private sector is the primary recipient of loans from the Armenian banking sector. As of 31 December 2016, 2017 and 2018, loans to the domestic private sector (excluding domestic interbank loans and resident public sector) accounted for 86.0%, 91.7% and 91.9%, respectively, of all banking sector loans. The volume of loans to the domestic private sector reduced by 4.4% as of 31 December 2015, but since then it has grown steadily: by 5.8% as of 31 December 2016, by 17.5% as of 31 December 2017, by 16.8% as of 31 December 2018. In 2015 and 2016, outstanding loans to non-residents have been on the rise, increasing from AMD96,979 million as of 31 December 2014 (4.4% of outstanding banking sector loans) to AMD114,271 as of

31 December 2015 (5.4% of outstanding banking sector loans) and to AMD319,248 million as of 31 December 2016 (13.1% of outstanding banking sector loans). In 2017, outstanding loans to non-residents reduced to AMD204,997 (7.6% of outstanding banking sector loans) and increased to AMD238,184 in 2018 (7.6% of outstanding banking sector loans).

Volumes of domestic interbank loans have fluctuated in recent years. Outstanding interbank loans increased from AMD44,132 million as of 31 December 2016, to AMD89,624 million as of 31 December 2017, before reducing to AMD75,029 million as of 31 December 2018.

## Inflation

### *CPI*

CPI is used as a broad measure of inflation in Armenia. CPI statistics are collected and calculated on a monthly basis by Armstat of the Republic of Armenia ("**Armstat**") and published on its website at www.armstat.am on the third business day after a reporting month. The CBA uses the data collected by Armstat to monitor headline inflation and calculate an index of core inflation.

Core inflation is a measure of the more persistent movements in headline inflation, which is mainly driven by aggregate demand and is less sensitive to direct effects of short-term supply side shocks such as one-off increases in public utility fees or adverse weather conditions of a temporary nature. Under the inflation targeting framework CBA uses monetary policy to control inflation through affecting aggregate demand in the economy while trying not to react to the first-round effects of one-time supply shocks. Using a measure of core inflation helps to avoid inefficient reactions to these shocks, as well as have a better understanding of the effects of monetary conditions on inflation dynamics generally.

The CBA puts primary emphasis on 12-month end-of-period inflation indicators. To ensure inflation remains close and converges to the target level of 4.0% per annum, the CBA monitors the 12-month inflation indicator on a monthly basis against the same month of the previous year.

The following table sets forth certain CPI information for the years indicated:

**CPI Inflation Rates**

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** |
| | | | *(%)* | | |
| **CPI (end of year)** | **4.6** | **(0.1)** | **(1.1)** | **2.6** | **1.8** |
| Food.......................................... | 6.3 | (3.7) | (0.2) | 5.3 | 1.8 |
| Non-food................................... | 1.6 | 3.4 | (3.4) | 1.7 | 3.2 |
| Services..................................... | 3.0 | 3.2 | (0.7) | (0.5) | 0.8 |
| **CPI (average)** | **3.0** | **3.7** | **(1.4)** | **1.0** | **2.5** |
| Food.......................................... | 2.2 | 3.0 | (2.9) | 4.0 | 2.5 |
| Non-food................................... | 1.7 | 5.6 | (2.5) | (1.8) | 4.5 |
| Services..................................... | 5.2 | 3.0 | 1.8 | (1.2) | 1.2 |

*Source*: Armstat

To determine CPI, Armstat monitors the prices of 450 goods and services across Armenia.

The following table sets forth the composition of CPI and the relative weight attributable to each component in calculating CPI:

**Composition of CPI**

| | |
|---|---|
| | *(%)* |
| Food and non-alcoholic beverages........................................................ | 41.35 |
| Alcoholic beverages and tobacco.......................................................... | 4.54 |
| Clothing and footwear .......................................................................... | 4.12 |

| | |
|---|---|
| Housing and household services | 15.97 |
| Furniture and household goods | 2.91 |
| Health | 7.76 |
| Transport | 8.30 |
| Communication | 5.42 |
| Recreation and culture | 1.47 |
| Education | 1.30 |
| Restaurants and hotels | 1.69 |
| Miscellaneous goods and services | 5.17 |

*Source*: Armstat

**Inflation Rates of CPI Components, %**

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| **All items** | **4.6** | **(0.1)** | **(1.1)** |
| Food and non-alcoholic beverages | 6.2 | (4.1) | (0.3) |
| Alcoholic beverages and tobacco | 7.1 | (0.1) | 1.1 |
| Clothing and footwear | 1.9 | 4.2 | (2.3) |
| Housing, water, electricity, gas | 4.7 | 4.0 | (1.7) |
| Furnishings, household equipment | 3.1 | 5.0 | (6.5) |
| Health | 3.1 | 7.4 | (0.1) |
| Transportation and communication | (2.0) | (2.6) | (2.7) |
| Recreation and culture | 5.9 | 4.4 | 3.3 |
| Miscellaneous goods and services | 2.9 | 7.1 | (1.5) |

*Source*: Armstat

In 2017, Armstat introduced a new classification of the main components of CPI. The following table sets forth inflation rates of the CPI components as determined in accordance with the new classification.

**Inflation Rates of CPI Components, %**

| | 2017 | 2018 |
|---|---|---|
| **All items** | **2.6** | **1.8** |
| Food and non-alcoholic beverages | 5.5 | 1.6 |
| Alcoholic beverages and tobacco | 4.0 | 3.9 |
| Clothing and footwear | 4.4 | 0.9 |
| Housing and household services | (3.8) | 0.5 |
| Furniture and household goods | (0.2) | 0.7 |
| Health | 2.5 | 3.7 |
| Transport | 5.2 | 5.9 |
| Communication | (0.1) | (0.6) |
| Recreation and culture | 1.9 | (2.4) |
| Education | 1.2 | 2.4 |
| Restaurants and hotels | 0.5 | 2.8 |
| Miscellaneous goods and services | (0.3) | 0.7 |

*Source*: Armstat

In 2014, Armenia's end-of-year annual CPI inflation rate was 4.6% due to a 6.3% increase in food prices, which, in turn, was driven by higher prices for bread, meat, milk and oil and fats. The 4.7% increase in utility tariffs, particularly for natural gas, also contributed to inflation in 2014, given the relatively large weighting afforded to public utility prices in the composition of CPI. The acceleration of inflation happened mostly in December 2014, when, due to a regional currency crisis, the exchange rate of the Armenian dram also depreciated, which caused inflation of imported goods.

In 2015, Armenia's end-of-year annual CPI inflation rate was (0.1)%, compared to 4.6% in 2014. Deflation in 2015 was due to a 3.7% decrease in food prices, particularly, of fruits, vegetables, meat, milk and oil and fats, which was offset by a 3.4% increase in non-food prices and a 3.2% increase in the prices for services. Price growth in the services sector was, in turn, largely due to an 11.1% increase in electricity tariffs in August 2014. Overall price growth was slower in 2015 compared to 2014 mainly due to a weakening domestic demand and vanishing effects of some cost-push shocks encountered earlier.

In 2016, Armenia's end-of-year annual CPI inflation rate was (1.1)%, compared to (0.1)% in 2015. Deflation in 2016 was due to a 3.4% decrease in non-food prices and a 0.7% decrease in services as well as a 0.2% decrease in food prices. Decrease of services prices was in large measure caused by a decrease in natural gas tariffs prices. Overall price growth was slower in 2016 compared to 2015 mainly due to a deflationary impact from international commodity markets, weak domestic demand and, to a lesser extent, favourable developments in the agricultural sector, which resulted in lower than expected prices of seasonal foods and vegetables.

The deflationary environment during 2015-2016 can be attributed to a few main drivers, such as a slowdown in the global economy and in particular the Russian economy, deflationary pressures from international markets for commodities, a shared deflationary trend among many emerging markets in the region and relatively weak domestic demand.

In 2017, Armenia's end-of-year annual CPI inflation rate was 2.6%, compared to deflation of (1.1)% in 2016. Inflation in 2017 was due to a 5.3% increase in food prices (including alcohol and cigarettes), and a 1.7% increase in non-food prices which were partly offset by a 0.5% decrease in services. Inflation returned in 2017 mainly due to an expansionary monetary policy environment, modest inflationary pressures from international food markets and a rapid increase in prices of fruits and vegetables in the second half of 2017.

In 2018, Armenia's end-of-year annual CPI inflation rate was 1.8%, compared to 2.6% in 2017. Inflation in 2018 was due to a 3.2% increase in non-food prices and a 1.8% increase in food prices, as well as a 0.8% increase in services prices. The increase in food prices was mainly due to an increase in prices of fruits, meat and oil and fats. The decrease of CPI inflation was mostly due to a relatively weak domestic demand attributable to a more-than-expected restrictive fiscal policy over the course of the year.

***Other Inflation Indices***

In addition to the CPI, the CBA uses other indices to monitor price movements in the economy, including: (i) the producer price index ("**PPI**"), which measures price changes in various industrial sectors; (ii) the freight tariff index, which measures changes in freight tariffs based on mode of transport; (iii) the construction price index, which measures changes in prices for various construction inputs, including materials, parts and labour; and (iv) the sale price index for agricultural products, which measures changes in the sales price of a basket of agricultural products.

The following table sets forth certain information of these other inflation indices:

**Selected Inflation Rates**

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** |
| | | | *(%)* | | |
| **PPI (end of period)** | **8.5** | **(7.7)** | **7.0** | **3.2** | **(1.2)** |
| **PPI (period average)** | **8.5** | **(0.8)** | **1.5** | **3.9** | **1.6** |
| **Freight tariff index (period average)** | 8.0 | 1.2 | 7.4 | 6.4 | 0.6 |
| Roads | (1.6) | (0.6) | (5.2) | - | 1.1 |
| Rail | 14.5 | 10.1 | (2.0) | 2.9 | 0.5 |
| Air | 0.1 | - | n/a | n/a | - |
| Pipeline | 16.9 | - | 15.8 | 13.7 | - |
| **Construction price index (period average)** | **2.1** | **6.1** | **(1.8)** | **0.2** | **1.8** |
| **Sale price index for agricultural products (period average)** | **0.8** | **(19.5)** | **(2.2)** | **0.8** | **13.1** |

Note:

n/a = not available.

*Source:* Armstat.

**Financial Market Interest Rates**

The following table sets forth the weighted average interest rates for dram deposits in Armenian banks for the years indicated:

**Interest Rates on Deposits**[1]

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| | | | | *(%)* | | |
| January | 10.28 | 12.06 | 13.35 | 8.96 | 8.82 | 8.95 |
| February | 9.82 | 13.99 | 11.44 | 9.29 | 8.73 | 8.65 |
| March | 9.71 | 15.21 | 11.45 | 9.21 | 8.39 | 8.99 |
| April | 10.12 | 13.26 | 10.77 | 10.15 | 8.97 | 8.85 |
| May | 10.18 | 15.26 | 12.20 | 8.86 | 8.48 | 8.86 |
| June | 10.64 | 14.85 | 12.81 | 9.10 | 8.64 | 8.25 |
| July | 10.27 | 14.44 | 12.37 | 8.82 | 8.69 | |
| August | 10.68 | 12.26 | 12.04 | 9.42 | 9.14 | |
| September | 10.12 | 14.06 | 11.76 | 8.62 | 8.63 | |
| October | 10.54 | 15.22 | 10.69 | 8.77 | 8.80 | |
| November | 10.30 | 15.07 | 10.60 | 8.56 | 8.10 | |
| December | 12.53 | 14.09 | 9.90 | 8.41 | 8.57 | |

Note:

(1) These figures include average deposit rates (up to one year, excluding demand deposits). Weighted average interest rates on deposits of the given maturity attracted from legal entities and households by commercial banks are presented.

*Source:* CBA.

Interest rates on deposits have historically varied, sometimes significantly, depending on the currency of the deposit and the identity of the depositor. Variations are driven by competition between Armenian commercial banks and anticipated exchange rates.

In 2018, the weighted average interest rates on short-term, dram-denominated household deposits (excluding demand deposits) stood at 8.2%, compared to 8.6% in 2017. In 2018, the weighted average interest rates on short-term, dram-denominated deposits (excluding demand deposits) for non-financial corporations stood at 9.1%, compared to 8.1% in 2017.

In 2018, the weighted average interest rates on long-term, dram-denominated and foreign currency-denominated household deposits stood at 9.6% and 4.8%, respectively, compared to 9.9% and 4.8%, respectively, in 2017. In 2018, the weighted average interest rates on long-term, dram-denominated and foreign currency-denominated deposits for non-financial corporations stood at 11.2% and 4.6%, respectively, compared to 9.5% and 4.4%, respectively, in 2017.

In 2018, the weighted average interest rates on short-term, dram-denominated and foreign currency-denominated household loans (including consumer and other loans) stood at 14% and 9.4%, respectively, compared to 16% and 11.2%, respectively, in 2017. In 2018, the weighted average interest rates on short-term, dram-denominated and foreign currency-denominated loans to non-financial corporations stood at 10.5% and 8.2%, respectively, compared to 11.1% and 7.2%, respectively, in 2017.

In 2018, the weighted average interest rates on long-term, dram-denominated and foreign currency-denominated household loans (including mortgage, consumer and other loans) stood at 11.7% and 11.4%, respectively, compared to 14.2% and 11.2%, respectively, in 2017. In 2018, the weighted average interest rates on long-term, dram-denominated and foreign currency-denominated loans to non-financial corporations stood at 11.2% and 7.7%, respectively, compared to 10.2% and 9.2%, respectively, in 2017.

Dram-denominated mortgage loans to individuals carried a 10.5% weighted average interest rate in 2018, compared to a 11.2% weighted average interest rate in 2017. Foreign currency-denominated mortgage loans to individuals carried a 9.5% weighted average interest rate in 2018, compared to a 9.9% weighted average interest rate in 2017.

The weighted average yield on short-term Government securities issued in the primary market was 6.1% in 2018, compared to 6.5% in 2017. The weighted average yield on mid-term Government securities issued in the primary market was 8% in 2018, compared to 8.9% in 2017. The weighted average yield on long-term Government securities issued in the primary market was 11% in 2018, compared to 12.4% in 2017.

**Exchange Rates and Exchange Rate Policy**

Armenia's national currency, the dram, was introduced in 1993. Consistent with its policy of inflation targeting, the CBA oversees a freely floating exchange rate regime. The exchange rate of the dram against the dollar is published on each business day as the weighted average rate of the buying and selling exchange rates of the dollar for transactions carried out by commercial banks, credit organisations and investment companies. Exchange rates of other currencies are calculated using their cross rates against the dollar, which are obtained from Bloomberg information systems at 14:00 Yerevan time. The exchange rates are published on the CBA's website before 15:45, Yerevan time, each business day.

The CBA's policy is to maintain the existing flexible exchange rate regime in line with the inflation targeting framework, while aiming to ensure international reserves adequacy. It considers continued two-way exchange rate flexibility will help protect reserve buffers and maintain competitiveness. Its currency interventions are expected to be limited to smoothing excessive fluctuations and mitigating transitory pressures. To further bolster Armenia's resilience to external shocks, the CBR is committed to maintaining the international reserves at adequate levels in line with the IMF reserve adequacy metrics.

The CBA has the exclusive right to issue bank notes and coins in Armenia. The CBA is responsible for the printing of bank notes and the minting of coins, the security and safekeeping of bank notes and coins intended for circulation and the custody and destruction of bank notes and coins withdrawn from circulation.

The following tables set forth, for the periods indicated, the exchange rate history of the dram relative to the dollar and euro, respectively:

**Dram to Dollar Exchange Rate History**

| Year | Low | High | Period average(1) | Period End |
|---|---|---|---|---|
| 2019 (through 31 August 2019) | 475.74 | 490.68 | 481.99 | 476.10 |
| 2018 | 480.06 | 488.68 | 482.99 | 483.75 |
| 2017 | 477.78 | 488.03 | 482.72 | 484.10 |
| 2016 | 473.29 | 496.11 | 480.49 | 483.94 |
| 2015 | 469.79 | 485.61 | 477.92 | 483.75 |
| 2014 | 405.95 | 527.20 | 415.92 | 474.97 |

Note:

(1) The average rates are calculated as the average of the monthly exchange rates for the period. Average monthly exchange rates are calculated as the average of the daily exchange rates for the relevant month.

*Source:* CBA.

**Dram to Euro Exchange Rate History**

| Year | Low | High | Period average(1) | Period End |
|---|---|---|---|---|
| 2019 (through 31 August 2019) | 525.37 | 559.75 | 542.84 | 525.71 |
| 2018 | 546.97 | 602.52 | 570.73 | 553.65 |
| 2017 | 509.93 | 580.10 | 545.25 | 580.10 |
| 2016 | 499.81 | 561.41 | 531.85 | 512.20 |
| 2015 | 500.47 | 577.47 | 530.60 | 528.69 |
| 2014 | 512.36 | 656.94 | 552.11 | 577.47 |

Note:

(1) The average rates are calculated as the average of the monthly exchange rates for the period. Average monthly exchange rates are calculated as the average of the daily exchange rates for the relevant month.

*Source:* CBA.

As a result of the regional currency crisis at the end of 2014, in 2015, in nominal terms, the dram depreciated against the dollar by 12.97% based on average rates and depreciated by 1.8% based on year-end exchange rates. In 2015, the dram appreciated against the euro in nominal terms by 4.0% based on average rates and by 9.2% based on year-end rates. In 2015, the average nominal effective exchange rate of the dram appreciated by 10.6%, and the average real effective exchange rate by 6.6%. Despite the depreciation of the dram against the dollar and euro, the average nominal and real effective exchange rates of the dram appreciated in 2015, mainly due to appreciation of the dram against the rouble, Ukrainian hryvnia and Iranian rial. Over 2015, the CBA raised the Refinancing Rate. The CBA raised the Refinancing Rate several times up to 10.5% at the beginning of the year to combat the hike in inflation expectations coming from regional currency crisis, and started to ease the monetary conditions after it monitored a reverse in expectations in the second part of the year by decreasing the Refinancing Rate from 10.5% to 8.75%. In the first quarter of 2015, after the regional currency crisis, the CBA lowered the one-day Lombard repo rate down from 20% to 12%, thus shifting back to the normal inflation-targeting regime (with the Lombard rate and deposit facility rate within the corridor of 1.5% of the Refinancing Rate). See "*—Monetary Policy of the CBA—Implementation*." In 2015, the CBA accumulated U.S.$285.89 million in reserves.

In 2016, in nominal terms, the dram depreciated against the dollar by 0.5% based on average rates and by 0.03% based on year-end exchange rates. In 2016, the dram depreciated against the euro in nominal terms by 0.29% based on average rates and appreciated by 3.2% based on year-end rates. The average nominal effective exchange rate of the dram appreciated by 4.5%, and the average real effective exchange rate of the dram depreciated by 0.8% in 2016. During 2016, the CBA continued to lower gradually the Refinancing Rate from 8.75% to 6.25%, due to decreasing inflation and inflation expectations. In 2016, the CBA accumulated U.S.$428.8 million in reserves.

In 2017, in nominal terms, the dram depreciated against the dollar by 0.5% based on average rates and by 0.03% based on year-end exchange rates. In 2017, the dram depreciated against the euro in nominal terms by 2.9% based on average rates and by 11.7% based on year-end rates. The average nominal effective exchange rate of the dram depreciated by 1.6%, and the average real effective exchange rate of the dram depreciated by 4.6% in 2017. In February 2017, the CBA decreased the Refinancing Rate from 6.25% to 6.00%. See "*—Monetary Policy of the CBA—Implementation*." In 2017, the CBA accumulated approximately U.S.$110 million in reserves. See "*—Net Foreign Assets*."

In 2018, in nominal terms, the dram depreciated by AMD0.05 against the dollar based on average rates and appreciated by 0.1% based on year-end exchange rates. In 2018, the dram depreciated against the euro in nominal terms by 4.1% based on average rates and appreciated by 4.8% based on year-end rates. The Refinancing Rate remained unchanged during 2018, as well as the standing facilities rates. See "*—Monetary Policy of the CBA—Implementation*." See "*—Monetary Aggregates*" and "*Risk Factors—Risks Factors Relating to Armenia—Depreciation of Dram and Consequences for Foreign Exchange Reserves and Public Finance*." In 2018, the CBA reserves decreased by about U.S.$54.8 million mostly due to the service and net payback of the Government loans.

Over the first half of 2019, in nominal terms, the dram depreciated against the dollar by 0.5% based on average rates and appreciated by 1.1% based on period-end exchange rates. Over the same period, in nominal terms, the dram appreciated against the euro by 6.4% based on average rates and by 3.3% based on the period-end exchange rates. Over the first six months of 2019, the CBA monitored appreciation pressures on the national currency and intervened into exchange rate market to smooth the trend by buying about U.S.$300 million from banks on the open market. As of 30 June 2019, the CBA reserves decreased by about U.S.$50 million (compared to 31 December 2018) due to service of Public Debt and outflow of commercial banks' foreign currency reserves held at the CBA, which was largely offset by the interventions of the CBA.

After decreasing the Refinancing Rate by 0.25% to 5.75% on 30 January of 2019, the CBA communicated that monetary policy would remain stimulating in order to foster the gradual return of the inflation to the 4% target in the medium term.

**Net Foreign Assets**

Armenia has no gold reserves and does not maintain a reserve position in the IMF. Its foreign exchange reserves are held in a mixture of major foreign currencies, deposits and securities.

Foreign liabilities of the CBA primarily consist of IMF credits, SDR allocations and other loans.

The following table sets forth the official reserves of Armenia and foreign liabilities of the CBA in dollars as of the dates indicated:

**Official Reserves and Foreign Liabilities(1)**

| | As of 31 December | | | | | As of 30 June | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2018** | **2019(2)** |
| | | | (U.S.$ millions) | | | | |
| Foreign exchange reserves | 1,483.20 | 1,772.43 | 2,200.63 | 2,306.90 | 2,253.35 | 1,986.6 | 2,204.73 |
| SDR holdings | 6.2 | 2.9 | 3.48 | 7.23 | 5.98 | 5.5 | 11.56 |
| **Gross official reserves** | **1,489.40** | **1,775.29** | **2,204.12** | **2,314.13** | **2,259.33** | **1,992.1** | **2,216.30** |
| IMF credits | 290.5 | 273.7 | 285.7 | 294.2 | 249.2 | 273.3 | 232.1 |
| SDR allocation | 127.5 | 121.9 | 118.3 | 125.5 | 122.6 | 123.8 | 122.5 |
| Other loans | 150 | 203.6 | 220.1 | 309.1 | 302.9 | 298.3 | 295.1 |
| Other liabilities | 0.7 | 0.9 | 0.7 | 1.9 | 1.7 | 0.8 | 1.0 |
| **Foreign liabilities** | **568.6** | **600.1** | **624.8** | **730.7** | **676.3** | **696.2** | **650.7** |

Notes:

(1) Amounts converted into dollars are calculated based on period-end exchange rates, and include accrued interest.
(2) Data for 2019 is preliminary.

*Source:* CBA.

As of 31 December 2015, the gross official reserves of Armenia stood at U.S.$1,775.3 million, an increase of U.S.$285.9 million, or 19.19%, compared to the level of gross official reserves as of 31 December 2014. The increase in reserves in 2015 was driven by a U.S.$289.2 million increase in foreign exchange reserves, which, in turn, was mainly due to the 2015 Eurobond issuance proceeds. As of 31 December 2015, foreign liabilities equalled U.S.$600.1 million, compared to U.S.$568.6 million as of 31 December 2014. The growth in foreign liabilities was mainly due to an increase of U.S.$53.6 million in other loans. Consequently, net foreign assets increased to U.S.$1,175.9 million as of 31 December 2015 from U.S.$920.8 million as of 31 December 2014. As of 31 December 2015, Armenia's foreign exchange reserves represented import coverage of 4.8 months (compared to 3.3 months as of 31 December 2014).

As of 31 December 2016, the gross official reserves of Armenia stood at U.S.$2,204.1 million, an increase of U.S.$428.8 million, or 24.16%, compared to the level of gross official reserves as of 31 December 2015. The increase in reserves in 2016 was driven by a U.S.$428.2 million rise in foreign exchange reserves which in turn was driven by the Government and CBA debt inflows, as well as foreign currency reserve requirement flows from the commercial banks. As of 31 December 2016, foreign liabilities equalled U.S.$624.8 million, compared to U.S.$600.1 million as of 31 December 2015. The increase in foreign liabilities was mainly due to an increase of U.S.$12 million in IMF liabilities and an increase of US$16.5 million in other loans. Consequently, net foreign assets increased to U.S.$1,579.3 million as of 31 December 2016 from U.S.$1,175.9 million as of 31 December 2015. As of 31 December 2016, Armenia's foreign exchange reserves represented import coverage of 5.9 months.

As of 31 December 2017, the gross official reserves of Armenia stood at U.S.$2,314.1 million, an increase of U.S.$110.1 million, or 4.99%, compared to the level of gross official reserves as of 31 December 2016. The increase in reserves in 2017 was driven by a U.S.$106.3 million increase in foreign exchange reserves, which was mainly due to the loans extended both to the Government and the CBA. As of 31 December 2017, foreign liabilities equalled U.S.$730.7 million, compared to U.S.$624.8 million as of 31 December 2016. The increase in foreign liabilities was mainly due to an increase of U.S.$8.5 million in IMF credits, an increase of U.S.$89 million in other loans and U.S.$7.2 million in SDR allocation. Net foreign assets increased to U.S.$1,583.4 million as of 31 December 2017 from U.S.$1,579.3 million as of 31 December 2016. As of 31 December 2017, Armenia's foreign exchange reserves represented import coverage of 4.9 months.

As of 31 December 2018, the gross official reserves of Armenia stood at U.S.$2,259.3 million, a decrease of U.S.$54.8 million, or 2.4%, compared to the level of gross official reserves as of 31 December 2017. The decrease in reserves in 2018 was driven by a U.S.$53.6 million decline in foreign exchange reserves, which, in turn, was mainly due to the payback of External Debt by the Government. See "—*Exchange Rates and Exchange Rate Policy*." As of 31 December 2018, foreign liabilities equalled U.S.$676.3 million, compared to U.S.$730.7 million as of 31 December 2017. The decrease in foreign liabilities was mainly due to a decline of

U.S.$45 million in IMF credits. Net foreign assets decreased to U.S.$1,583.0 million as of 31 December 2018 from U.S.$1,583.4 million as of 31 December 2017. As of 31 December 2018, Armenia's foreign exchange reserves represented import coverage of 4.2 months. As of 31 March 2018 and 31 March 2019, Armenia's foreign exchange reserves represented import coverage of 4.8 and 4.7 months, respectively.

According to the IMF data, Armenia's international reserves satisfy all adequacy requirements based on both the composite metric (IMF ARA EM), which involves benchmarking foreign exchange reserves against risk-weighted liability shocks, and other internationally accepted metrics, which call for coverage by foreign exchange of at least: (i) three months of imports; (ii) 100% of short-term debt at remaining maturity; and (ii) 20% of broad money (M2).

**Financial Services Industry**

***Supervision and Licensing***

Following the adoption of the CBA Law in 1996, the CBA is the sole regulator and supervisor of the financial services sector in Armenia, including in respect of, *inter alia*, banks, credit organisations, insurance companies, security market participants, currency exchange bureaus and payment organisations (including money remittance service providers). The CBA is authorised to issue and revoke licences, carry out on- and off-site inspections and impose restrictions and sanctions. The CBA is also authorised to place banks, credit organisations, investment firms, investment fund managers, payment organisations and insurance companies into temporary administration, liquidation or insolvency regimes, as the case may be.

***Banking Sector***

As of 31 December 2018, there were 17 commercial banks in Armenia, of which 15 had foreign capital participation. Foreign capital participation exceeded 62% of total share capital in all Armenian banks as of 31 December 2018.

As of 31 December 2018, total assets of the Armenian banking sector equalled AMD4,986.4 billion compared to AMD4,363.4 billion as of 31 December 2017 and AMD3,987 billion as of 31 December 2016. Between 31 December 2015 and 31 December 2018, total assets of the Armenian banking sector increased by AMD1,536.8 billion, or 44.6%, in large part due to significant growth in lending. As of 31 December 2018, loans accounted for AMD2,932.9 billion of total assets, compared to AMD2,006.1 billion of total assets as of 31 December 2015, an increase of 46.2%. Loans account for the largest share of banking sector assets, comprising 58.8% of total assets as of 31 December 2018.

As of 31 December 2018, total liabilities of the Armenian banking sector amounted to AMD4,237.6 billion, compared to AMD3,678.1 billion as of 31 December 2017 and AMD3,341 billion as of 31 December 2016. Between 31 December 2015 and 31 December 2018, total liabilities of the Armenian banking sector increased by AMD1,294.6 billion, or 44%, in large part due to a substantial growth in deposits. As of 31 December 2018, demand and time deposits accounted for AMD2,728.3 billion of total liabilities, compared to AMD1,789.3 billion of total liabilities as of 31 December 2015, an increase of 52.5%. A 104.8% increase in other liabilities from AMD168.5 billion as of 31 December 2015 to AMD345.1 billion as of 31 December 2018 also contributed to growth in total liabilities of the banking sector. Time deposits represent the single largest component of banking sector liabilities, accounting for 40.6% of total liabilities as of 31 December 2018.

As of 31 December 2018, banks with majority foreign capital participation accounted for 41% of the banking sector's total assets and 45% of the banking sector's total capital.

There are no restrictions under Armenian law on the foreign ownership of banks. As such, VTB Bank Armenia is 100% owned by VTB Bank, a Russian bank. Byblos Bank is fully owned by Byblos Bank SAL, Lebanese bank. HSBC-Armenia bank is 70% owned by HSBC Europe B.V. As of 30 June 2019, EBRD has a shareholding of 2.2% in Armeconombank, of 17.78% in Ameriabank and of 12.65% in Inecobank. Mellat Bank CJSC ("**Mellat Bank**") is 100% owned by Bank Mellat IRI, an Iranian bank. Mellat Bank has no correspondent accounts with any Armenian bank and is not able to engage in any type of international wire transfer since it has been disconnected from the international SWIFT system. The CBA believes that, in general, increasing foreign investment in the Armenian banking sector has supported the development of a competitive and resilient banking market.

Lending to customers is the primary activity of banks operating in Armenia. Between 2015 and 2018, the gross loan portfolio increased from 39.8% of GDP to an estimated 48.8% of GDP. As of 31 December 2018, corporate loans accounted for 59% of the gross loan book of the banking sector, with loans to individuals accounting for the remaining 41%.

In 2005, the CBA established the Deposit Guarantee Fund, which guarantees local-currency deposits of up to AMD10 million and foreign currency deposits of up to the equivalent of AMD5 million.

The CBA believes that the banking sector's refinancing risk is relatively low due to the high percentage of long-term borrowings from parent entities and international financial institutions.

The following table sets forth the aggregate balance sheet and certain key ratios of the Armenian banking sector as of the dates indicated:

**Aggregate Balance Sheet and Key Ratios of the Banking Sector in Armenia**

| | As of 31 December | | | | As of 30 June |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** | **2019** |
| | *(AMD millions, unless otherwise indicated)* | | | | |
| Cash | 130,665 | 120,412 | 131,629 | 158,283 | 151,108 |
| Balances on correspondent accounts | 634,382 | 674,141 | 567,748 | 698,714 | 724,869 |
| Other claims on banks | 78,549 | 59,159 | 143,255 | 150,695 | 184,242 |
| Government securities | 251,664 | 425,201 | 487,980 | 549,596 | 581,004 |
| Other securities | 33,705 | 39,803 | 50,626 | 72,607 | 76,991 |
| Repo agreements (without interbank repos) | 15,498 | 23,394 | 37,512 | 23,750 | 26,368 |
| Loans | 2,006,101 | 2,315,719 | 2,516,837 | 2,932,928 | 3,097,531 |
| Accrued interest | 66,604 | 77,362 | 76,382 | 82,048 | 92,965 |
| Fixed assets | 87,448 | 95,054 | 98,383 | 101,185 | 109,050 |
| Other assets | 144,976 | 156,801 | 254,029 | 216,642 | 211,424 |
| **Total assets** | **3,449,592** | **3,987,045** | **4,364,380** | **4,986,449** | **5,255,553** |
| Current accounts | 15,093 | 32,586 | 9,478 | 15,450 | 15,142 |
| Other liabilities to banks | 404,228 | 328,974 | 328,198 | 435,522 | 513,188 |
| Liabilities to other financial institutions | 531,606 | 574,202 | 582,524 | 666,635 | 692,382 |
| Demand deposits (legal and natural persons) | 549,964 | 682,163 | 800,045 | 1,008,422 | 1,047,379 |
| Time deposits (legal and natural persons) | 1,239,311 | 1,495,297 | 1,663,690 | 1,719,902 | 1,775,384 |
| Accrued interest | 34,286 | 41,526 | 44,322 | 46,537 | 51,982 |
| Other liabilities | 168,531 | 186,202 | 249,852 | 345,133 | 389,460 |
| **Total liabilities** | **2,943,020** | **3,340,950** | **3,678,109** | **4,237,602** | **4,484,919** |
| Share capital | 356,621 | 450,505 | 463,717 | 505,091 | 510,548 |
| Reserves | 30,672 | 31,927 | 33,387 | 45,871 | 48,036 |
| Retained earnings | 101,803 | 119,578 | 134,936 | 147,575 | 164,508 |
| **Equity** | **506,572** | **646,095** | **686,271** | **748,847** | **770,635** |
| **Total liabilities and equity** | **3,449,592** | **3,987,045** | **4,364,380** | **4,986,449** | **5,255,553** |
| **Key Ratios** | | | | | |
| Loans/total assets (%) | 58.2 | 58.1 | 57.7 | 58.8 | 58.9 |
| Liquid assets/total assets (%) | 28.0 | 32.5 | 32.1 | 27.3 | 27.2 |
| Loans/non-bank deposits (%) | 112.1 | 106.3 | 102.2 | 107.5 | 109.7 |
| Total deposits/total liabilities (%) | 62.9 | 62.9 | 62.9 | 62.9 | 62.9 |
| Demand deposits/total deposits (%) | 30.74 | 31.33 | 32.47 | 36.96 | 37.10 |

*Source:* CBA.

The following table sets forth the aggregate profit and loss statement and certain key ratios of the Armenian banking sector for the years indicated:

**Aggregate Profit and Loss Statement and Key Ratios of the Banking Sector in Armenia**

| | For the year ended 31 December | | | | For the period ended 30 June |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| | *(AMD millions, unless otherwise indicated)* | | | | |
| Interest income | 303,875.24 | 312,037.03 | 340,162.89 | 351,416.10 | 189,238.87 |
| Interest expense | 188,672.63 | 192,828.39 | 205,499.88 | 201,426.99 | 109,222.84 |
| Net interest income | 115,202.61 | 119,208.64 | 134,663.01 | 149,989.11 | 80,016.03 |
| Non-interest income | 93,378.65 | 95,100.34 | 100,465.05 | 116,557.83 | 62,431.45 |
| Non-interest expense | 117,019.44 | 118,664.30 | 131,222.66 | 156,127.20 | 75,569.30 |
| Net non-interest expense | (23,640.79) | (23,563.96) | (30,757.62) | (39,569.37) | (13,137.85) |
| Asset loss provisioning | (421,036.52) | (426,415.78) | (513,320.10) | (230,136.65) | (107,127.02) |
| Recoveries from asset loss provisioning | 313,257.09 | 369,346.77 | 461,121.20 | 174,779.69 | 76,749.17 |
| Pre-tax profit | (16,217.62) | 38,575.68 | 51,706.50 | 55,062.78 | 36,500.33 |
| Profit tax | 4,491.23 | 6,904.86 | 11,490.09 | 16,476.11 | 7,325.20 |
| Net profit | (20,708.85) | 31,670.83 | 40,216.41 | 38,586.67 | 29,175.13 |
| Dividends | 0 | 160.05 | 0 | 232.438 | 392.82 |
| Retained earnings | (20,708.85) | 31,510.78 | 40,216.41 | 38,354.23 | 28,782.31 |
| **Key ratios** | | | | | |
| Return on average assets (%) | (0.5) | 1.1 | 1.4 | 1.1 | 1.4 |
| Return on average equity (%) | (3.5) | 7.0 | 8.6 | 7.4 | 9.6 |
| Interest margin to gross income (%)[(1)] | 29.0 | 29.3 | 30.6 | 32.1 | 31.8 |

Note:

(1) Interest income minus interest expense divided by gross income (gross income is defined as the sum of interest and non-interest income).

*Source:* CBA.

In 2016, net profits of the banking sector amounted to AMD31,670.83 million, compared to negative net profits of AMD20,708.85 million in 2015. The growth in net profits in 2016 was largely attributable to a strong decline in net provisioning of the banking sector (from AMD107,779.44 million in 2015 to AMD57,069.00 million in 2016). The growth in net profits was supported by an increase in net interest income (3.5% compared to 2015), which was supplemented by a minor fall in net non-interest expense from AMD23,640.79 million in 2015 to AMD23,563.96 million in 2016.

In 2017, net profits of the banking sector increased by AMD8,545.58 million, or by 27.0%, to AMD40,216.41 million from AMD31,670.83 million in 2016 mainly due to a 24.8% increase in recoveries from asset loss provisioning, which was partially offset by a 20.4% increase in asset loss provisioning. The 8% decrease in net loan loss provisioning was mainly caused by a 10.3% decrease in non-performing loans. See "—*Non-Performing Loans*."

In 2018, net profits of the banking sector decreased by AMD1,629.7 million, or by 4.1%, to AMD38,586.67 million from AMD40,216.41 million in 2017, mainly due to a 62.1% decrease in recoveries from asset loss provisioning. As in 2018, the 6.0% increase in net loan loss provisioning was primarily driven by increase in written-off assets.

*Non-Performing Loans*

The CBA classifies a loan as non-performing where: (i) payments of principal or interest are past due by 90 days or more; (ii) interest payments have been capitalised, refinanced or delayed by agreement; or (iii) payments of principal or interest are not overdue, but there are other good reasons to doubt that payments will be made in full. The CBA does not classify loans which are more than 270 days past due because they are considered as fully depreciated and are not included in balance sheet assets.

The following table sets forth certain statistics concerning non-performing loans as of the dates indicated:

**Non-Performing Loans**

| | As of 31 December | | | | As of 30 June |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Non-performing loans (*AMD millions*) | 166,003 | 162,220 | 145,428 | 146,367 | 177,738 |
| Total outstanding loans (*AMD millions*) | 2,088,168 | 2,412,506 | 2,677,091 | 3,078,564 | 3,266,494 |
| Non-performing loans/total loans (%) | 7.95 | 6.72 | 5.43 | 4.75 | 5.44 |
| Reserves for loan losses/total loans (%) | 3.41 | 3.50 | 2.82 | 2.69 | 2.8 |
| Non-performing loan coverage ratio (%)[1] | 42.91 | 52.05 | 51.52 | 56.58 | 50.9 |

Note:

(1) The ratio of reserves for loan losses to non-performing loans.

*Source:* CBA.

Between 2015 and 2017, non-performing loans decreased annually in absolute terms and as a share of total loans. In 2018, non-performing loans slightly increased (from AMD145,428 million in 2017 to AMD146,367 million in 2018), and as a share of total loans they decreased from 5.43% in 2017 to 4.75% in 2018. As of 31 December 2017, outstanding non-performing loans decreased by 10.3% compared to 31 December 2016 and decreased to 5.43% of total loans as of 31 December 2017 compared to 6.72% of total loans as of 31 December 2016.

### ***Banking Supervision***

*Key Prudential Requirements*

The principal laws regulating the Armenian banking sector are the CBA Law and the Law on Banks and Banking of Armenia, dated 30 June 1996, as amended (the "**Banking Law**"). The Banking Law (i) sets out the list of permitted and prohibited activities for banks and (ii) establishes the framework for the registration and licensing of banks in Armenia and the regulation and supervision of banking activity. The CBA regulates financial institutions in line with risk-based supervision principles and organises banking supervision through specialised-function units. The CBA also has the authority to revoke the banking licence of any bank that becomes insolvent, as well as under certain other circumstances.

The CBA is currently drafting amendments to Armenia's prudential standards in order to introduce Basel III principles, and has developed an indicative time-frame for local implementation (*e.g.*, in order to give flexibility to banks in fulfilling of the new Tier II minimum capital requirements, the CBA postponed the full implementation thereof until 2020). Steps are being taken in Armenia to improve capital quality, implement new approaches to liquidity risk management and improve risk management processes, all of which are designed to gradually harmonise the regulatory framework governing Armenia's banking system with Basel III.

In line with Basel III, the CBA has introduced three types of buffers above the minimum requirements of capital adequacy for banks, namely, a capital conservation buffer, a countercyclical capital buffer and a systemic buffer. The countercyclical capital buffer has been implemented since July 2019 while the capital conservation buffer and systemic buffer will be implemented gradually starting from 1 January 2020.

As of 31 December 2018, each commercial bank in Armenia must maintain regulatory capital of at least AMD30 billion. A bank's Tier I capital ratio, *i.e*., the ratio of Tier I capital to risk-weighted assets, must be at least 10% (effective from 1 January 2020), and a bank's total regulatory capital ratio, *i.e*., the ratio of regulatory capital to risk-weighted assets, must be at least 12%. To reduce foreign currency-induced credit risk, banks are required to assign a risk weight to foreign currency-denominated loans that is around 50% higher than the risk weight that would be attributed to an equivalent dram-denominated loan. This approach effectively raises the prudentially-mandated ratio well above the corresponding BIS (Basel II) requirement. These requirements were strengthened following a relaxation of certain prudential requirements during the global financial crisis. See "—*Monetary Policy of the CBA.*"

The following table sets forth certain statistics relating to capital adequacy ratios as of the dates indicated:

**Capital Adequacy Ratios**

| | As of 31 December | | | | As of 30 June |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Equity/total assets | 14.68 | 16.20 | 15.71 | 15.02 | 14.66 |
| CBA total capital adequacy ratio | 16.18 | 19.95 | 18.57 | 17.66 | 17.43 |
| CBA Tier I capital adequacy ratio | 13.95 | 16.43 | 15.17 | 15.22 | 15.15 |

*Source:* CBA.

Banks are required to set aside sufficient provisions to cover potential losses on loans and other assets, to review these provisions and to report them to the CBA on a monthly basis. CBA regulations set forth the provisioning requirements for the creation of loan loss reserves. For regulatory purposes, banks classify loans into the following five categories: (i) standard, (ii) watch, (iii) sub-standard, (iv) doubtful and (v) loss. Loans are classified based on the financial position of the borrower, the quality of the borrower's servicing of the debt, the number of past due days and any other relevant factors. Assets are also classified by the CBA. In 2010, the CBA made changes to the provisioning requirements for foreign currency assets. Pursuant to these changes, each bank is required to make an additional 20.0% capital provision for foreign currency assets as compared to equivalent assets denominated in drams.

For each reporting month, banks are required to maintain high quality liquid assets equal to at least 15.0% of total assets. The minimum ratio of a bank's high quality liquid assets expressed in Group I currencies, which comprise the dollar, euro, Japanese Yen, British pound, the Swiss franc, Canadian dollar, Swedish krona, Danish krone and banking gold, to total assets expressed in Group I currencies is 4.0%. Should liabilities expressed in any Group II currency (being any currency that is not a Group I currency), exceed 5.0% of a bank's total liabilities according to the month's average daily calculation, then, for each Group II currency, the following standard shall apply: the average ratio of high quality liquid assets expressed in dollars, euros and the applicable Group II currency to total assets expressed in dollars, euros and the applicable Group II currency must be at least 4.0%.

Banks are required to keep high quality liquid assets for any reporting month of not less than 60.0% of demand liabilities for such reporting month. The minimum ratio of a bank's high quality liquid assets expressed in Group I currencies to demand liabilities expressed in Group I currencies is 10.0%. Should liabilities expressed in any Group II currency exceed 5.0% of a bank's total liabilities according to the month's average daily calculation, then, for each Group II currency, the following standard shall apply: the average ratio of highly liquid assets expressed in dollars, euros and the applicable Group II currency to demand liabilities expressed in dollars, euros and the applicable Group II currency must be at least 10.0%.

A bank's gross foreign currency position as a share of total capital must not exceed 10.0%. A bank's maximum open position in any foreign currency as a share of total capital must not exceed 7.0%.

The CBA performs stress tests at least quarterly on the Armenian banking industry. The tests follow best international practices and are designed to highlight the sensitivity of Armenian banks to changes in the credit or liquidity environment, to movements in interest rates and foreign exchange rates, and to changes generally in the macroeconomic environment (including possible contagion effects).

*Payment and Settlement Systems*

The CBA is empowered to assist banks in organising facilities for the clearing and settlement of interbank payments and may establish procedures and issue regulations relating thereto as it deems appropriate to ensure the efficient operation of the payment system.

From 1996 to 2001, the interbank electronic payments system (known as BANKMAIL) and the Government securities accounting and settlements system (known as BOOKENTRY) were introduced, and the SWIFT system was put into more widespread use in international payments. A national payments and settlements system was developed in compliance with international standards, including the creation of a unified payment and settlement system, known as the Armenian Card or ArCa payment system.

In 2018, payment card transactions carried out in Armenia amounted to approximately AMD1.862 trillion. In 2018, non-cash transactions by payment cards amounted to AMD396.0 billion, an increase of 39.0% compared to 2017. Internet payments accounted for AMD246.0 billion of these transactions, of which card-to-card transfers comprised AMD48.9 billion and electronic commerce comprised AMD101.2 billion. In 2018, the share of non-cash payments by cards (including internet operations) in the total number of card transactions reached 21.3%, an increase of 3.0% from 2017. In 2018, compared to 2017, money transfers to individuals by banks and money transfer organisations (including SWIFT payments) increased by 3.6% to AMD885.3 billion, while the amount of outgoing transfers increased by 14.7% to AMD536.4billion. As a result, in 2018, net money transfer inflows decreased and totalled AMD348.9 billion.

As of 31 December 2018, 16 commercial banks in Armenia provided and serviced payment cards. In 2018, 1,546 new automated teller machines ("**ATMs**") were installed in Armenia. Commercial banks also installed 8,796 point-of-sale terminals and 1036 virtual point-of-sale. In 2018, the number of payment cards increased by 18.0%, bringing the total number of cards in circulation to 2.0 million. The number of active ArCa cards grew by 11.0% in 2018 (compared to 2017), bringing the total number of such cards to 629,000 as of 31 December 2018. The number of international cards grew by 22.1% in 2018, with Visa, MasterCard and other international cards increasing by 32.3% (to approximately 806,000 cards), 10.5% (to approximately 546,000 cards) and 6.2% (to approximately 43,000 cards), respectively.

*Regulation of Accounting and Reporting Rules*

In accordance with the Law on Accounting of Armenia, adopted on 26 December 2002, almost all financial institutions shall prepare and submit their financial reports in compliance with IFRS standards. The CBA together with the State Revenue Committee are responsible for overseeing compliance with this requirement.

**AML/CFT System**

Armenia's first legislation designed to prevent money laundering and terrorism financing came into force in 2005. The second piece of legislation on money laundering and terrorism financing, the Law on Combating Money Laundering and Terrorism Financing of Armenia (the "**AML/CFT Law**"), came into force in August 2008 and was substantially amended in June 2014 and in March 2018. The amendments implemented recommendations from the 3rd and 5th rounds Evaluation Reports of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("**MONEYVAL**") and pursuant to the 40 Recommendations of the Financial Action Task Force ("**FATF**").

The AMT/CFT Law defines the role and responsibilities of the CBA and its national financial intelligence unit- the FMC, in the fight against money laundering and terrorism financing. The AMT/CFT Law also governs the relationships between various stakeholders of the AML/CFT system (including the FMC, law enforcement and supervisory authorities and reporting entities), as well as sets out the framework for international cooperation. The AML/CFT Law lists the entities that are required to disclose certain financial transactions, as well as regulates the scope of information that such reporting entities provide to the FMC. Under the AML/CFT Law, financial institutions, including all banks, are deemed 'reporting entities' and are obliged to file reports with the FMC on all non-cash transactions in excess of AMD20 million, all cash transactions in excess of AMD5 million and all suspicious transactions or business relationships, regardless of the amount involved. To assist reporting entities, the FMC has shared with them a matching algorithm programme and a monitoring list that is designed to recognise metadata related to suspicious individuals and entities, including those designated under applicable sanctions regimes.

By Presidential decree, the Interagency Committee for Combating Money Laundering, Terrorist Financing and Proliferation Financing in the Republic of Armenia (the "**Interagency Committee**") was established in 2002. A new composition of members of the Interagency Committee was approved by the Prime Minister on 17 January 2019. It is the principal forum for cooperation and coordination among the country's authorities responsible for preventing money laundering and terrorism financing. It includes representatives of the CBA, law enforcement bodies, the judicial system, the Ministry of Foreign Affairs, the Ministry of Finance and the Union of Banks, among others. The main responsibilities of the Interagency Committee include: (i) the issuance of policy recommendations in the sphere of combating money laundering, terrorism financing and proliferation financing; (ii) the development of strategies to implement such recommendations; and (iii) cooperation with applicable national and international authorities.

In 2005, the FMC was established as an autonomous unit within the CBA and, for purposes of the AML/CFT Law, acts as an intermediary between reporting entities and law enforcement authorities. The FMC carries out its work in accordance with the AML/CFT Law, CBA resolutions, decisions of the CBA chairman and the FMC Statute, approved in 2009 and 2018 by the CBA Board. The primary responsibilities of the FMC are to: (i) gather and analyse information from reporting entities, state bodies and organisations; (ii) refer suspicious activity to the relevant authorities for criminal prosecution; and (iii) cooperate and exchange information with international financial intelligence units. There are four divisions within the FMC – the Legal Compliance Division, the Analyses Division, the Information Systems Design and Development Division, and the International Relations Division. The FMC publishes annual reports on its activities.

Armenia is a member of MONEYVAL and maintains observer status within the Eurasian Group on Combating Money-Laundering and Terrorism Financing. Both of these groups implement and enforce FATF recommendations. In addition, since 2007, the FMC has been a member of the Egmont Group of Financial Intelligence Units (the "**Egmont Group**"), which provides the FMC with the opportunity to cooperate with financial intelligence units from more than 160 countries and exchange information with these units through a secured system. The FMC participates in plenary sessions and working group meetings of the Egmont Group. Armenia actively cooperates with its international partners on matters related to the UN and other applicable sanctions.

The CBA requires banks to conduct relationships with clients according to the "Core Principles for Effective Banking Supervision" ("**CPEBS**") published by the Basel Committee on Banking Supervision. All banks and other financial institutions employ officers whose responsibility is to ensure internal compliance with CPEBS.

The CBA is authorised to carry out on-site and off-site inspections of AML/CFT issues arising in the financial sector and has dedicated budget resources and personnel to carry out such inspections and communicate to the FMC any breach of the AML/CFT Law or related regulations. Representatives of the FMC are also involved in inspections carried out by the Financial Supervision Department of the CBA.

**Stock Market**

The Armenian Stock Exchange ("**ASE**") was established in 2000 as a joint-stock company and is the only recognised stock exchange in Armenia, currently operating under the name: Armenia Securities Exchange "AMX."

The following table sets forth certain statistics regarding trading on the ASE for the years indicated:

**ASE Market Statistics**

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| Number of trades | 1,093 | 1,631 | 1,537 | 2,369 |
| Average number of trades per month | 91 | 136 | 128 | 197 |
| Securities traded *(volume of shares, AMD millions)* | 6,767.75 | 31,839.22 | 12,057.41 | 2,141.62 |
| Average volume of securities traded per month | 564 | 2,653 | 1,005 | 178 |
| Treasury bills traded *(volume of bills, AMD millions)* | 12,082.28 | 53,821.37 | 65,101.26 | 56,991.63 |
| Average volume of treasury bills traded per month | 1,006.86 | 4,485.11 | 5,425.10 | 4,749.30 |
| Corporate bonds traded *(volume of bonds, AMD millions)* | 14,230.55 | 11,475.70 | 18,996.03 | 37,670.11 |
| Average volume of corporate bonds traded per month | 1186 | 956 | 1583 | 3,139 |
| Trading volume *(AMD millions)* | 33,080.57 | 97,136.29 | 96,154.69 | 96,803.36 |
| Year-on-year change *(%)* | (54.9) | 193.6 | (1.01) | 0.7 |
| Average trading volume per month | 2,756.71 | 8,094.69 | 8,012.89 | 8,066.95 |

*Source*: ASE.

**Insurance Sector**

Under the CBA Law and the Law on Insurance and Insurance Activities, which was adopted in 2007, the CBA is responsible for the supervision of the insurance sector. The CBA also issues and revokes licences of insurance companies, insurance brokerage companies, registers insurance agents, sets minimum capital and other requirements for insurance companies, adopts corresponding regulations with respect to insurance supervision, examines insurers' activities, imposes sanctions on insurance companies violating legal requirements and performs forced administration, liquidation and bankruptcy procedures, and supervises the activity of insurance brokers and agents. The CBA is a member of the International Association of Insurance Supervisors.

As of 31 December 2018, there were seven insurance companies operating in Armenia; none provide life-insurance services. Three of these insurance companies have at least 50% foreign participation in its equity. In addition, as of 31 December 2018, there were three insurance brokers in Armenia.

As of 31 December 2018 (compared to 31 December 2017), there was a 4.4% increase in the assets of insurance companies in Armenia, and equalled AMD51.7 billion as of 31 December 2018. Total liabilities of insurance companies increased by 7.3% and equalled AMD32.5 billion as of 31 December 2018, compared to AMD30.3 billion as of 31 December 2017. Total equity of insurance companies decreased by 0.2% bringing the total amount to AMD19.2 billion as of 31 December 2018. As of 31 December 2018, the largest insurance companies in Armenia in terms of net assets were Ingo Armenia and Rosgosstrakh Armenia.

## PUBLIC DEBT AND RELATED MATTERS

### Overview

The Law on State Debt of Armenia (the "**Law on State Debt**") defines the state debt of Armenia (the "**Public Debt**") as (i) the aggregate debt incurred or guaranteed by the Government, state bodies and agencies of Armenia on behalf of Armenia (the "**Government Debt**"); and (ii) the aggregate debt incurred or guaranteed by the CBA to non-residents of Armenia, foreign states and international organisations. The Public Debt is comprised of Internal Public Debt and External Public Debt (each, as described below). Public Debt may be incurred to finance the public deficit and provide liquidity to the Government, to support the balance of payments and replenish Armenia's foreign reserves and to develop the country's market for Internal Public Debt. Local governments are permitted to issue both domestic and foreign debt, although such debt is not part of the Public Debt (so that it is not an obligation of Armenia).

As of 30 June 2019, Public Debt amounted to U.S.$6,934.0 million, of which U.S.$5,456.1 million was External Public Debt and U.S.$1,477.9 million was Internal Public Debt. As of the date of this Prospectus, over 80.5% of the outstanding debt from the 2013 Eurobond issuance and the 2015 Eurobond issuance is classified as External Public Debt.

The Budgetary System Law and the Law on State Debt set out the following requirements regarding the Government Debt. Where Government Debt in the year preceding the year when a State Budget for next year is prepared (the "**Preceding Year**") exceeds:

(i) *40% of the GDP of the Preceding Year*, the budget deficit in the year with respect to which the relevant State Budget is prepared (the "**Upcoming Year**") shall not be more than capital expenditures in the Upcoming Year;

(ii) *50% of the GDP of the Preceding Year,* in addition to the requirement set out in item (i) above, the Government shall determine the maximum level of increase in current expenditures in the Upcoming Year (excluding the Government Debt service payments) based on the historical long-term growth of GDP and such growth rate should be lower than the average growth rate of GDP in the preceding seven years;

(iii) *60% of the GDP of Preceding Year*, in addition to the requirements set out in items (i) and (ii) above, the Government shall determine the ratio of current expenditures (excluding the Government Debt service payments) to tax revenues for the Upcoming Year such that the growth rate in current expenditures should be at least 0.5% lower than the average growth rate of GDP in the preceding seven years and total current expenditure should not exceed total tax revenues.

The ceiling for the Government Debt is set out in the annual message on the budget (the "**Budget Message**"), which forms part of the draft State Budget. Under the 2019 Budget Message, the ceiling for Government Debt is U.S.$6,913.5 million, of which U.S.$5,404.8 million is allocated to External Public Debt of the Government and U.S.$1.508.6 million is allocated to Internal Public Debt of the Government. Under the MTEF for 2020-2022, the ceiling for the Government Debt in 2020 is U.S.$7,183.1 million, of which U.S.$5,528.1 million is allocated to External Public Debt of the Government and U.S.$1,655.1 million is allocated to Internal Public Debt of the Government.

The following table sets forth certain key statistics with regard to Public Debt for the periods indicated:

**Public Debt[(1)]**

| | As of and for the year ended 31 December | | | | | As of 30 June |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| | *(U.S.$ millions, except as indicated)* | | | | | |
| **Public Debt** | **4,441.5** | **5,077.7** | **5,942.1** | **6,774.6** | **6,922.9** | **6,934.0** |
| Internal Public Debt[(2)] | 656.3 | 761.5 | 1,136.5 | 1,279.7 | 1,390.0 | 1,477.9 |
| External Public Debt | 3,785.2 | 4,316.2 | 4,805.6 | 5,494.9 | 5,532.9 | 5,456.1 |
| *of Government* | 3,345.3 | 3,839.9 | 4,300.9 | 4,893.4 | 4,982.8 | 4,930.9 |
| *of CBA* | 440.0 | 476.3 | 504.7 | 601.5 | 550.0 | 525.2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Interest payments** | **154.5** | **171.1** | **213.1** | **264.0** | **298.7** | **156.4** |
| Internal Public Debt(3) | 79.5 | 67.3 | 87.5 | 120.5 | 132.5 | 69.3 |
| External Public Debt | 75.1 | 103.8 | 125.6 | 143.5 | 166.2 | 87.2 |
| **Principal payments** | **346.4** | **524.6** | **373.7** | **430.1** | **449.4** | **257.4** |
| Internal Public Debt(3) | 155.4 | 237.4 | 269.2 | 284.8 | 244.7 | 152.5 |
| External Public Debt | 191.0 | 287.3 | 104.5 | 145.3 | 204.7 | 104.9 |
| **Public Debt/GDP (%)(4)** | **43.7** | **48.7** | **56.7** | **58.9** | **55.8** | **n/a** |
| Internal Public Debt/GDP (%) | 6.5 | 7.3 | 10.9 | 11.1 | 11.2 | n/a |
| External Public Debt/GDP (%)(4) | 37.2 | 41.4 | 45.9 | 47.8 | 44.6 | n/a |
| Public Debt/State Budget revenues (%)(4) | 184.3 | 210.3 | 245.5 | 264.9 | 249.6 | n/a |
| Public Debt service/State Budget revenues (%)(5) | 18.1 | 27.6 | 24.0 | 26.9 | 27.0 | n/a |
| External Public Debt/official foreign exchange reserves (%) | 254.1 | 243.1 | 218.0 | 237.5 | 244.9 | 246.2 |

Notes:

n/a = not available

(1) Table includes amounts outstanding under domestic and external guarantees issued by the Government.
(2) Figures for Internal Public Debt are converted into dollars, using the AMD/U.S.$ exchange rate at the end of each period. See "*Exchange Rates*."
(3) Figures for interest and principal payments on Internal Public Debt are converted into dollars, using the average AMD/U.S.$ exchange rate for each period. See "*Exchange Rates*."
(4) Figures for External Public Debt are converted into drams, using the AMD/U.S.$ exchange rate as of the end of each period. See "*Exchange Rates*."
(5) Figures for interest and principal payments on External Public Debt are converted into drams, using the average AMD/U.S.$ exchange rate for each period. See "*Exchange Rates*."

*Source*: Ministry of Finance.

For purposes of financing the deficit in recent years, Armenia has incurred total net borrowing in the following amounts: for the year 2014, AMD84 billion (of which AMD15 billion was domestic net borrowings and the remaining AMD69 billion external net borrowings); for the year 2015, AMD317 billion (of which AMD14 billion domestic / AMD303 billion external); for the year 2016, AMD409 billion (of which AMD171 billion domestic / AMD238 billion external); for the year 2017, AMD279 billion (of which AMD46 billion domestic / AMD233 billion external); and for the year 2018, AMD133 billion (of which AMD48 billion domestic / AMD85 billion external).

As of 30 June 2019, total amounts outstanding under domestic guarantees issued by the Government (which are classified as Internal Public Debt) equalled U.S.$9.0 million. The Government also issues external guarantees; total amounts outstanding under such guarantees equalled U.S.$144.5 million as of 30 June 2019, U.S.$136.5 million out of which was provided by the Government for external loans of the CBA (to avoid double counting, U.S.$136.5 million is included in the External Public Debt of the CBA and not the Government).

As of 31 December 2018, total external debt of Armenia, which includes private external debt and External Public Debt, amounted to U.S.$10,913.6 million, or 87.9% of GDP. As of 31 March 2019, total external debt of Armenia amounted to U.S.$11,079.0 million.

Under the Government Debt Management Strategy of the Republic of Armenia for 2020-2022, the Government has set the following benchmarks for the efficient management of Government Debt:

| | **Benchmark** | **Actual Rates as of 31 December 2018** |
|---|---|---|
| **Refinancing risk** | | |
| Average time to maturity | 8-11 years | 8.7 years |
| Share of the Government treasury bonds maturing in 1 year in the outstanding Government treasury bonds (at the end of the year) | Max 20% | 12.9% |
| **Interest rate risk** | | |
| Share of fixed rate debt in total debt | Min 80% | 85.0% |
| **Exchange rate risk** | | |
| Share of domestic debt in total debt | Min 20% | 21.8% |

| | | |
|---|---|---|
| Share of AMD denominated debt in total debt | Min 20% | 19.1% |

*Source*: Ministry in Finance.

The Government has also expressed a commitment (subject to changes in economic circumstances) to reducing Government Debt to less than 50% of GDP by 2023.

**Internal Public Debt**

Internal Public Debt consists of (i) Government securities acquired by residents of Armenia; (ii) commercial loans issued by residents of Armenia to the Ministry of Finance; and (iii) domestic guarantees issued by the Government (the "**Internal Public Debt**").

As of 31 December 2018, Internal Public Debt amounted to AMD672.4 billion, or 11.2% of GDP. As of 30 June 2019, Internal Public Debt amounted to AMD705.1 billion.

The following table sets forth information on Internal Public Debt as of the indicated dates:

**Internal Public Debt**

| | As of and for the year ended 31 December | | | | | As of 30 June |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| | | | *(AMD billions)* | | | |
| **Total** | **311.7** | **368.4** | **550.0** | **619.5** | **672.4** | **705.1** |
| ***Government securities*** | ***308.8*** | ***367.4*** | ***546.6*** | ***615.1*** | ***668.1*** | ***700.8*** |
| Government domestic securities purchased by residents | 289.4 | 320.0 | 500.3 | 540.0 | 584.5 | 606.6 |
| Eurobonds purchased by residents | 19.4 | 47.4 | 46.3 | 75.1 | 83.6 | 94.2 |
| ***Commercial loans*** | *1.9* | - | - | - | - | - |
| ***Domestic guarantees*** | *1.0* | *1.0* | *3.4* | *4.4* | *4.4* | *4.3* |
| | | | *(% of total)* | | | |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| ***Government securities*** | ***99.1*** | ***99.7*** | ***99.4*** | ***99.3*** | ***99.4*** | ***99.4*** |
| Government domestic securities purchased by residents | 92.9 | 86.9 | 91.0 | 87.2 | 86.9 | 86.0 |
| Eurobonds purchased by residents | 6.2 | 12.9 | 8.4 | 12.1 | 12.4 | 13.4 |
| ***Commercial loans*** | *0.6* | - | - | - | - | - |
| ***Domestic guarantees*** | *0.3* | *0.3* | *0.6* | *0.7* | *0.6* | *0.6* |
| | | | *(% of GDP)* | | | |
| **Total** | **6.5** | **7.3** | **10.9** | **11.1** | **11.2** | **n/a** |
| ***Government securities*** | ***6.4*** | ***7.3*** | ***10.8*** | ***11.1*** | ***11.1*** | ***n/a*** |
| Government domestic securities purchased by residents | 6.0 | 6.3 | 9.9 | 9.7 | 9.7 | n/a |
| Eurobonds purchased by residents | 0.4 | 0.9 | 0.9 | 1.3 | 1.4 | n/a |
| ***Commercial loans*** | - | - | - | - | - | *n/a* |
| ***Domestic guarantees*** | - | - | *0.1* | *0.1* | *0.1* | *n/a* |
| *Memo:* | | | | | | |
| Internal Public Debt ceiling (*U.S.$ millions*)[(1)] | 733.3 | 824.0 | 782.8 | 1,189.0 | 1,362.4 | n/a |
| GDP (market prices) (*AMD billions*) | 4,828.6 | 5,043.6 | 5,067.3 | 5,564.5 | 6,005.1 | n/a |
| Exchange rate, AMD/U.S.$, end of period[(2)] | 475.0 | 483.8 | 483.9 | 484.1 | 483.8 | 477.1 |
| Internal Public Debt (*U.S.$ millions*) | 656.3 | 761.5 | 1,136.5 | 1,279.7 | 1,390.0 | 1,477.9 |

Notes:

n/a = not available

(1) As set forth in the relevant annual Budget Message.

(2) As published by the CBA. See "*Exchange Rates*."

*Source:* Ministry of Finance.

The following table provides information on the profile of Armenia's domestic Government securities, including the maturity profile based on time to redemption:

**Domestic Government Securities[(1)]**

| | As of 31 December | | | | | As of 30 June |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| | | | *(AMD billions)* | | | |
| **Total,** of which | **289.9** | **320.8** | **508.3** | **549.7** | **588.1** | **610.1** |
| T-bills | 12.5 | 21.5 | 78.8 | 22.7 | 29.1 | 27.0 |
| Medium-term bonds | 150.8 | 153.9 | 212.7 | 241.4 | 230.1 | 214.6 |
| Long-term bonds | 125.5 | 144.3 | 214.7 | 282.5 | 323.2 | 362.3 |
| Saving bonds | 1.1 | 1.0 | 2.1 | 3.2 | 5.7 | 6.2 |
| **Total,** of which | **289.9** | **320.8** | **508.3** | **549.7** | **588.1** | **610.1** |
| Up to one year[(2)] | 56.6 | 54.7 | 116.2 | 90.1 | 76.1 | 98.0 |
| 1-2 years | 44.1 | 41.7 | 77.0 | 61.0 | 73.9 | 73.1 |
| 2-3 years | 36.1 | 66.4 | 53.9 | 64.2 | 71.5 | 59.2 |
| 3-4 years | 41.2 | 15.7 | 36.2 | 69.8 | 41.5 | 31.3 |
| 4-5 years | 12.7 | 25.2 | 56.8 | 27.6 | 37.5 | 20.8 |
| 5 years or more | 99.2 | 117.1 | 168.3 | 237.1 | 287.5 | 327.6 |

Notes:

(1) Excludes Eurobonds purchased by residents.
(2) Includes T-bills and savings bonds with maturities of up to one year.

*Source:* Ministry of Finance.

As of 30 June 2019, Government securities amounted to AMD700.8 billion (U.S.$1,468.8 million), comprising 99.4% of Internal Public Debt. Government securities consist mainly of medium-term and long-term bonds and, to a lesser extent, T-bills, Eurobonds held by Armenian residents and savings bonds. The remaining Internal Public Debt as of 30 June 2019 comprised domestic guarantees, equalling AMD4.3 billion (U.S.$9 million). In April 2017, the auction system for government treasury bonds was transferred from the CBA to the NASDAQ QMX Armenia (now the ASE), which allowed carrying out the primary placement of treasury bonds through a trading platform that has a modern software solutions and possibilities for doing transactions with debt management instruments. The procedure for selecting participants in the primary market for government treasury bonds was established under a July 2017 order of the Minister of Finance, which also set goals to increase the responsibility of the participants in the primary market for government treasury bonds, ensure an equal competitive environment, create a transparent selection process, and increase the activity of the secondary market. An online system for retail sales of government treasury bonds through treasury custodian has also been introduced, which aims at both the improvement of the investment-making process and at extending the scope of investors and increasing the investment volumes in retail sales.

Medium-term bonds are fixed rate, dram-denominated obligations with maturities of between one and five years. All of Armenia's outstanding medium-term bonds bear either three- or five-year maturities. As of 31 December 2018, outstanding medium-term bonds amounted to AMD230.1 billion. As of 30 June 2019, the outstanding amount of medium-term bonds was AMD214.6 billion. In 2018, a total of six auctions of medium-term bonds took place.

Long-term bonds are fixed rate, dram-denominated obligations with maturities of more than five years. All of Armenia's outstanding long-term bonds bear 10-, 20- or 30-year maturities. As of 31 December 2018, outstanding long-term bonds amounted to AMD323.2 billion. As of 30 June 2019, the outstanding amount of long-term bonds was AMD362.3 billion. In 2018, a total of four auctions of long-term bonds took place.

T-bills are fixed rate, dram-denominated obligations with a maturity of up to one year. As of 31 December 2018, outstanding T-bills amounted to AMD29.1 billion. As of 30 June 2019, the outstanding amount of T-bills was AMD27.0 billion. In 2018, a total of 35 T-bills auctions took place.

Since 2017, Armenia has decreased the number of auctions with respect to medium- and long-term bonds and T-bills, but increased the volume of each auction. On 9 July 2019, 10-year bonds with a total amount of AMD48.0 billion (approximately U.S.$100 million) were allocated, against total bids exceeding AMD99 billion, the largest auction sale of Government securities in Armenia to date. In the medium-term to long-term, it is expected that the use of domestic borrowing as a means to finance the State budget will increase (supported in part by the pension reforms). The increase of the liquidity of domestic bonds through increasing the volume of bonds in circulation is a public debt management target.

The Government also issues savings bonds, which are fixed rate, non-tradeable securities sold only to individual retail investors. Coupon payments for savings bonds can be made on a quarterly, semi-annual or annual basis, and the maturity period for savings bonds range from three months to 25 years. As of 31 December 2018, the outstanding amount of savings bonds was AMD5.7 billion. As of 30 June 2019, the outstanding amount of savings bonds was AMD6.2 billion.

As of 31 December 2018, the weighted average yield of domestic Government securities was 12.3%, and the average contractual maturity of domestic Government securities equalled 3,308 days (over 9 years). All Government securities carry fixed interest rates. All domestic Government securities are dram-denominated (other than Eurobonds held by Armenian residents).

In 2018, turnover on the secondary market for domestic Government securities equalled AMD388.6 billion, consisting of AMD338.4 billion in interbank transactions and AMD50.2 billion in transactions on the Armenia Securities Exchange.

On 28 June 2016, OJSC Central Depository of Armenia ("**CDA**") and Clearstream signed an agreement on the opening of a Clearstream nominee account at CDA. Foreign investors can now easily purchase Armenian securities, including Government bonds, without opening a direct account at CDA.

As of 30 June 2019, there were no outstanding internal commercial loans extended to the Government.

**External Public Debt**

In accordance with the Law on State Debt, External Public Debt consists of (i) debt incurred or guaranteed by the Ministry of Finance on behalf of Armenia and held by non-residents of Armenia; and (ii) debt incurred or guaranteed by the CBA and held by non-residents of Armenia (the "**External Public Debt**"). External guarantees issued by the Government are provided to the CBA and, to avoid double counting, are included in the External Public Debt of the CBA and not the Government.

The outstanding External Public Debt was U.S.$5,456.1 million as of 30 June 2019. As of 30 June 2019, External Public Debt comprised (i) debt to multilateral financial institutions of U.S.$3,557.9 million; (ii) bilateral debt to other sovereigns of U.S.$1,058.8 million; (iii) bonds held by non-residents of U.S.$809.8 million, nearly all of which comprises outstanding Eurobond debt; (iv) indebtedness to commercial banks of U.S.$21.7 million, consisting of U.S.$3.6 million to KBC BANK NV (Belgium), U.S.$8.6 million to Raiffeisen Bank International AG (Austria) and U.S.$9.4 million to Erste Bank (Austria); and (v) a guarantee of U.S.$8.0 million issued to Erste Bank (Austria).

Historically, most External Public Debt was raised on concessionary terms. With Armenia now being classified as a 'middle-income' country, it has less access to the concessional loans provided by international institutions, and, for example, the World Bank and the Asian Development Bank have reviewed and increased the interest rates for their financings. Accordingly, the share of External Public Debt raised on commercial terms has risen in recent years, particularly as a result of the September 2013 debut Eurobond and the March 2015 Eurobond issuance, one of the main purposes of which was to promote the country's transition from raising debt on concessionary terms to that raised on commercial terms. As of 31 December 2018, 50.3% of External Public Debt was extended on concessionary terms and 49.7% on semi-concessionary or commercial terms.

As of 31 December 2018, the average weighted interest rate on External Public Debt was approximately 3% per annum, and the average contractual maturity was approximately 8.6 years. As of 31 December 2018, 78.1% of Armenia's External Public Debt portfolio carried fixed interest rates, and the remainder carried floating rates.

The following table sets forth information on External Public Debt as of the indicated dates:

## External Public Debt

| | As of 31 December | | | | | As of 30 June |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| | | | *(U.S.$ millions)* | | | |
| **Total** | **3,785.2** | **4,316.2** | **4,805.6** | **5,494.9** | **5,532.9** | **5,456.1** |
| ***Government**, of which* | ***3,345.3*** | ***3,839.9*** | ***4,300.9*** | ***4,893.4*** | ***4,982.8*** | ***4,930.9*** |
| ***Multilateral creditors**, of which* | ***2,257.6*** | ***2,489.2*** | ***2,831.4*** | ***3,167.2*** | ***3,185.7*** | ***3,159.9*** |
| IDA | 1,198.4 | 1,139.7 | 1,098.2 | 1,131.8 | 1,071.0 | 1,047.4 |
| IMF | 152.0 | 141.1 | 126.8 | 110.7 | 79.8 | 65.6 |
| IBRD | 361.5 | 462.9 | 596.7 | 631.1 | 681.8 | 694.1 |
| ADB | 303.5 | 388.2 | 501.6 | 642.0 | 708.7 | 710.9 |
| EU | 79.0 | 71.0 | 68.8 | 77.9 | 74.4 | 74.0 |
| IFAD | 62.9 | 61.2 | 63.5 | 66.4 | 64.3 | 64.1 |
| OPEC | 34.5 | 40.4 | 55.4 | 57.5 | 56.6 | 55.3 |
| EBRD | 21.3 | 18.9 | 20.5 | 23.6 | 21.8 | 20.6 |
| EIB | 44.6 | 65.8 | 94.9 | 120.9 | 121.0 | 119.8 |
| EDB (EFSD) | - | 100.0 | 205.0 | 305.2 | 306.3 | 308.1 |
| ***Government securities*** | ***660.2*** | ***903.7*** | ***921.0*** | ***864.9*** | ***834.8*** | ***809.8*** |
| Government domestic securities purchased by non-residents | 0.9 | 1.5 | 16.5 | 20.0 | 7.5 | 7.1 |
| Eurobonds purchased by non-residents | 659.2 | 902.1 | 904.4 | 844.9 | 827.3 | 802.7 |
| ***Bilateral creditors**, of which* | ***411.2*** | ***423.9*** | ***526.1*** | ***829.2*** | ***931.6*** | ***931.5*** |
| Russia | - | 7.8 | 56.4 | 252.6 | 314.0 | 315.0 |
| Japan (JICA) | 252.6 | 241.5 | 239.4 | 238.5 | 233.2 | 233.8 |
| Germany (KfW) | 118.9 | 104.3 | 100.1 | 166.3 | 211.6 | 208.6 |
| USA | 25.3 | 23.5 | 21.8 | 20.1 | 18.3 | 17.2 |
| France | 8.7 | 20.0 | 79.4 | 122.0 | 126.7 | 129.4 |
| Abu Dhabi Fund for Development | 5.7 | 6.4 | 6.6 | 5.9 | 5.3 | 4.9 |
| Export-Import Bank of China | - | 20.4 | 22.4 | 23.8 | 22.6 | 22.6 |
| ***Commercial banks*** | ***16.3*** | ***23.2*** | ***22.4*** | ***24.6*** | ***22.7*** | ***21.7*** |
| ***External guarantees*** | ***-*** | ***-*** | ***-*** | ***7.4*** | ***8.0*** | ***8.0*** |
| ***CBA**, of which* | ***440.0*** | ***476.3*** | ***504.7*** | ***601.5*** | ***550.0*** | ***525.2*** |
| ***Multilateral creditors**, of which* | ***347.0*** | ***390.8*** | ***404.4*** | ***471.9*** | ***418.4*** | ***398.0*** |
| IMF | 290.1 | 273.3 | 285.2 | 293.5 | 248.4 | 231.4 |
| IBRD | 49.3 | 48.0 | 46.5 | 45.0 | 43.4 | 42.6 |
| ADB | 7.6 | 7.2 | 10.3 | 17.3 | 13.8 | 13.8 |
| EIB | - | 62.3 | 62.3 | 116.1 | 112.8 | 110.2 |
| ***Bilateral creditors**, of which* | ***93.0*** | ***85.6*** | ***100.3*** | ***129.6*** | ***131.7*** | ***127.2*** |
| Germany (KfW) | 93.0 | 85.6 | 100.3 | 129.6 | 131.7 | 127.2 |
| | | | *(% of total)* | | | |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| ***Government**, of which* | ***88.4*** | ***89.0*** | ***89.5*** | ***89.1*** | ***90.1*** | ***90.4*** |
| ***Multilateral creditors**, of which* | ***59.6*** | ***57.7*** | ***58.9*** | ***57.6*** | ***57.6*** | ***57.9*** |
| IDA | 31.7 | 26.4 | 22.9 | 20.6 | 19.4 | 19.2 |
| IMF | 4.0 | 3.3 | 2.6 | 2.0 | 1.4 | 1.2 |
| IBRD | 9.5 | 10.7 | 12.4 | 11.5 | 12.3 | 12.7 |
| ADB | 8.0 | 9.0 | 10.4 | 11.7 | 12.8 | 13.0 |
| EU | 2.1 | 1.6 | 1.4 | 1.4 | 1.3 | 1.4 |
| IFAD | 1.7 | 1.4 | 1.3 | 1.2 | 1.2 | 1.2 |
| OPEC | 0.9 | 0.9 | 1.2 | 1.0 | 1.0 | 1.0 |
| EBRD | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| EIB | 1.2 | 1.5 | 2.0 | 2.2 | 2.2 | 2.2 |
| EDB (EFSD) | - | 2.3 | 4.3 | 5.6 | 5.5 | 5.6 |
| ***Government securities*** | ***17.4*** | ***20.9*** | ***19.2*** | ***15.7*** | ***15.1*** | ***14.8*** |
| Government domestic securities purchased by non-residents | - | - | 0.3 | 0.4 | 0.1 | 0.1 |
| Eurobonds purchased by non-residents | 17.4 | 20.9 | 18.8 | 15.4 | 15.0 | 14.7 |
| ***Bilateral creditors**, of which* | ***10.9*** | ***9.8*** | ***10.9*** | ***15.1*** | ***16.8*** | ***17.1*** |
| Russia | - | 0.2 | 1.2 | 4.6 | 5.7 | 5.8 |
| Japan (JICA) | 6.7 | 5.6 | 5.0 | 4.3 | 4.2 | 4.3 |
| Germany (KfW) | 3.1 | 2.4 | 2.1 | 3.0 | 3.8 | 3.8 |
| USA | 0.7 | 0.5 | 0.5 | 0.4 | 0.3 | 0.3 |

| | | | | | | |
|---|---|---|---|---|---|---|
| France | 0.2 | 0.5 | 1.7 | 2.2 | 2.3 | 2.4 |
| Abu Dhabi Fund for Development | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Export-Import Bank of China | - | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| ***Commercial banks*** | ***0.4*** | ***0.5*** | ***0.5*** | ***0.4*** | ***0.4*** | ***0.4*** |
| ***External guarantees*** | - | - | - | ***0.1*** | ***0.1*** | ***0.1*** |
| ***CBA**, of which* | ***11.6*** | ***11.0*** | ***10.5*** | ***10.9*** | ***9.9*** | ***9.6*** |
| ***Multilateral creditors**, of which* | ***9.2*** | ***9.1*** | ***8.4*** | ***8.6*** | ***7.6*** | ***7.3*** |
| IMF | 7.7 | 6.3 | 5.9 | 5.3 | 4.5 | 4.2 |
| IBRD | 1.3 | 1.1 | 1.0 | 0.8 | 0.8 | 0.8 |
| ADB | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.3 |
| EIB | - | 1.4 | 1.3 | 2.1 | 2.0 | 2.0 |
| ***Bilateral creditors**, of which* | ***2.5*** | ***2.0*** | ***2.1*** | ***2.4*** | ***2.4*** | ***2.3*** |
| Germany (KfW) | 2.5 | 2.0 | 2.1 | 2.4 | 2.4 | 2.3 |
| | | | *(% of GDP)*[1] | | | |
| **Total** | **37.2** | **41.4** | **45.9** | **47.8** | **44.6** | **n/a** |
| ***Government**, of which* | ***32.9*** | ***36.8*** | ***41.1*** | ***42.6*** | ***40.1*** | ***n/a*** |
| ***Multilateral creditors**, of which* | ***22.2*** | ***23.9*** | ***27.0*** | ***27.6*** | ***25.7*** | ***n/a*** |
| IDA | 11.8 | 10.9 | 10.5 | 9.8 | 8.6 | n/a |
| IMF | 1.5 | 1.4 | 1.2 | 1.0 | 0.6 | n/a |
| IBRD | 3.6 | 4.4 | 5.7 | 5.5 | 5.5 | n/a |
| ADB | 3.0 | 3.7 | 4.8 | 5.6 | 5.7 | n/a |
| EU | 0.8 | 0.7 | 0.7 | 0.7 | 0.6 | n/a |
| IFAD | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | n/a |
| OPEC | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | n/a |
| EBRD | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | n/a |
| EIB | 0.4 | 0.6 | 0.9 | 1.1 | 1.0 | n/a |
| EDB (EFSD) | - | 1.0 | 2.0 | 2.7 | 2.5 | n/a |
| ***Government securities*** | ***6.5*** | ***8.7*** | ***8.8*** | ***7.5*** | ***6.7*** | ***n/a*** |
| Government domestic securities purchased by non-residents | - | - | ***0.2*** | ***0.2*** | ***0.1*** | ***n/a*** |
| Eurobonds purchased by non-residents | ***6.5*** | ***8.7*** | ***8.6*** | ***7.4*** | ***6.7*** | ***n/a*** |
| ***Bilateral creditors**, of which* | ***4.0*** | ***4.1*** | ***5.0*** | ***7.2*** | ***7.5*** | ***n/a*** |
| Russia | - | 0.1 | 0.5 | 2.2 | 2.5 | n/a |
| Japan (JICA) | 2.5 | 2.3 | 2.3 | 2.1 | 1.9 | n/a |
| Germany (KfW) | 1.2 | 1.0 | 1.0 | 1.4 | 1.7 | n/a |
| USA | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | n/a |
| France | 0.1 | 0.2 | 0.8 | 1.1 | 1.0 | n/a |
| Abu Dhabi Fund for Development | 0.1 | 0.1 | 0.1 | 0.1 | - | n/a |
| Export-Import Bank of China | - | 0.2 | 0.2 | 0.2 | 0.2 | n/a |
| ***Commercial banks*** | ***0.2*** | ***0.2*** | ***0.2*** | ***0.2*** | ***0.2*** | ***n/a*** |
| ***External guarantees*** | - | - | - | ***0.1*** | ***0.1*** | ***n/a*** |
| ***CBA**, of which* | ***4.3*** | ***4.6*** | ***4.8*** | ***5.2*** | ***4.4*** | ***n/a*** |
| ***Multilateral creditors**, of which* | ***3.4*** | ***3.7*** | ***3.9*** | ***4.1*** | ***3.4*** | ***n/a*** |
| IMF | 2.9 | 2.6 | 2.7 | 2.6 | 2.0 | n/a |
| IBRD | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | n/a |
| ADB | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | n/a |
| EIB | - | 0.6 | 0.6 | 1.0 | 0.9 | n/a |
| ***Bilateral creditors**, of which* | ***0.9*** | ***0.8*** | ***1.0*** | ***1.1*** | ***1.1*** | ***n/a*** |
| Germany (KfW) | 0.9 | 0.8 | 1.0 | 1.1 | 1.1 | n/a |
| *Memo:* | | | | | | |
| External Public Debt ceiling (*U.S.$ millions*)[2] | 4277.50 | 4037.00 | 4826.10 | 5323.00 | 5805.00 | n/a |
| GDP (*AMD billions*) | 4828.63 | 5043.63 | 5067.29 | 5564.49 | 6005.06 | n/a |
| Exchange rate, AMD/U.S.$, end of period[3] | 474.97 | 483.75 | 483.94 | 484.10 | 483.75 | 477.11 |

Notes:

n/a = not available.

(1) Figures for External Public Debt are converted into drams, using the AMD/U.S.$ exchange rate as of the end of each period. See "*Exchange Rates*."

(2) As set forth in the relevant annual Budget Message.

(3) As published by the CBA. See "*Exchange Rates*."

*Source:* Ministry of Finance.

Of the U.S.$5,456.1 million outstanding as of 30 June 2019, U.S.$4,930.9 million represented External Public Debt incurred by the Government, including U.S.$3,159.9 million in loans from multilateral creditors, U.S.$931.5 million in loans from bilateral sovereign creditors, U.S.$802.7 million in Eurobonds held by non-residents, U.S.$21.7 million in loans from commercial banks, U.S.$8.0 million in a guarantee issued to a foreign bank and U.S.$7.1 million in dram-denominated Government securities held by non-residents. As of 30 June 2019, Armenia's largest multilateral lenders were the IDA, ADB, IBRD, IMF and the EDB (EFSD).

Russia, followed by Japan, were Armenia's largest bilateral sovereign creditors as of 30 June 2019. Bilateral sovereign debt increased substantially over 2013-2019, from U.S.$411.2 million to U.S.$931.5 million, largely due to U.S.$270 million financing provided by Russia to extend the operating lifetime of the Metsamor Plant to 2026. The loan bears an interest rate of 3% per annum; the date of the first payment of principal was initially scheduled for the beginning of 2020 (currently, an extension of the disbursement period is being discussed by Armenia and Russia).

As of 30 June 2019, fixed-rate loans and fixed-rate Government securities comprised 63.0% and 14.8%, respectively, of Public External Debt. The remaining share of Public External Debt (22.2%) consisted of loans with floating interest rates. The following table sets forth the structure of Public External Debt by currency as of the dates indicated:

**External Public Debt by Currency(1)(2)**

| | As of 31 December | | | | | As of 30 June |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| | | | *(U.S.$ millions)* | | | |
| U.S.$ | 1,209.9 | 1,737.2 | 2,153.3 | 2,590.7 | 2,752.6 | 2,741.3 |
| SDR | 1,934.3 | 1,920.9 | 1,887.4 | 1,947.6 | 1,796.0 | 1,738.1 |
| EUR | 381.8 | 388.3 | 480.0 | 668.4 | 715.7 | 708.3 |
| JPY | 252.6 | 241.5 | 239.4 | 238.5 | 233.2 | 233.8 |
| CNY | - | 20.4 | 22.4 | 23.8 | 22.6 | 22.6 |
| AMD | 0.9 | 1.5 | 16.5 | 20.0 | 7.5 | 7.1 |
| AED | 5.7 | 6.4 | 6.6 | 5.9 | 5.3 | 4.9 |
| **Total** | **3,785.2** | **4,316.2** | **4,805.6** | **5,494.9** | **5,532.9** | **5,456.1** |

Notes:

(1) Includes loans and Government securities.

(2) Non-dollar amounts have been converted into dollar amounts, using the period-end exchange rates as published by the CBA. See "*Exchange Rates*."

*Source*: Ministry of Finance.

### Government Guarantees

The Government issues domestic and external debt guarantees. As of 30 June 2019, the total amount outstanding under Government domestic debt guarantees was U.S.$9.0 million in respect of a loan from Ardshinbank CJSC to "Agarak Copper and Molybdenum Combine" CJSC. As of 30 June 2019, the total amount outstanding under Government external debt guarantees was U.S.$144.5 million, of which U.S.$136.5 million consisted of Government guarantees in respect of loans provided by official creditors, such as the IBRD, ADB and KfW, to the CBA. These external guarantees are reflected as External Public Debt of the CBA. The remaining U.S.$8.0 million constituted a Government guarantee in respect of a loan provided by Erste Bank (Austria) to "Nork-Marash" Medical Centre CJSC.

### External Debt (Public and Private)

The following table sets forth certain statistics regarding Armenia's total external debt, including Public External Debt as well as private sector external debt:

**Total External Debt (Public and Private)**

| | As of and for the year ended 31 December | | | | | As of 31 March |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Total external debt[(1)] (U.S.$ millions) | 8,540.5 | 8,918.8 | 9,953.1 | 10,524.6 | 10,913.6 | 11,079.0 |
| Public External Debt/total external debt (%) | 46.0 | 49.9 | 50.6 | 55.0 | 52.8 | 51.8 |
| Total external debt/GDP[(2)] (%) | 84.0 | 85.5 | 95.1 | 91.6 | 87.9 | n/a |

Notes:

n/a = not available.

(1) Includes loans and Government securities.

(2) Figures for total external debt converted into drams, using the AMD/U.S.$ exchange rate as of the end of each period. See "*Exchange Rates*."

*Sources*: CBA.

Borrowings by domestic banks and credit organisations represent the largest component of private sector debt, constituting 48.8% of outstanding private sector debt as of 31 December 2018 and 49.3% of outstanding private sector debt as of 31 March 2019.

**Public Debt Service**

The following table sets forth the total Public Debt service for the periods indicated:

**Public Debt Service**

| | For the year ended 31 December | | | | | As of 30 June |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| | *(U.S.$ millions)* | | | | | |
| **Internal Public Debt service[(1)]** | **234.8** | **304.7** | **356.6** | **405.3** | **377.2** | **221.8** |
| Principal | 155.4 | 237.4 | 269.2 | 284.8 | 244.7 | 152.5 |
| Interest | 79.5 | 67.3 | 87.5 | 120.5 | 132.5 | 69.3 |
| **External Public Debt service** | **266.0** | **391.1** | **230.1** | **288.8** | **370.9** | **192.1** |
| Principal | 191.0 | 287.3 | 104.5 | 145.3 | 204.7 | 104.9 |
| Interest | 75.1 | 103.8 | 125.6 | 143.5 | 166.2 | 87.2 |
| **Total Public Debt Service[(1)]** | **500.9** | **695.8** | **586.7** | **694.1** | **748.1** | **413.8** |

Note:

(1) Figures for Internal Public Debt are converted into dollars, using the average AMD/U.S.$ exchange rate. See "*Exchange Rates*."

*Source*: Ministry of Finance.

The weighted average interest rate on the Government Debt was 4.2% in 2014, 4.5% in 2015, 4.9% in 2016 and 2017, and 5.0% in 2018.

The following table sets forth the projected total principal service payments on External Public Debt by type of creditor for the periods indicated:

**Projected Total External Public Debt Principal Service Requirements**(1)

| | As of 31 December | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029-2054 |
| | *(U.S.$ millions)*(2) | | | | | | | | | | |
| **Government External Public Debt**, *of which* | **162.0** | **699.2** | **211.9** | **220.0** | **227.4** | **232.3** | **745.9** | **335.2** | **250.3** | **228.1** | **1,835.6** |
| ***Multilateral creditors**, of which* | ***119.9*** | ***141.9*** | ***152.1*** | ***148.5*** | ***151.2*** | ***156.0*** | ***173.2*** | ***263.4*** | ***179.7*** | ***178.5*** | ***1,521.4*** |
| IDA | 56.9 | 64.4 | 69.7 | 70.2 | 71.1 | 72.1 | 73.7 | 74.6 | 66.8 | 66.3 | 385.1 |
| IMF | 28.3 | 28.3 | 17.9 | 5.3 | - | - | - | - | - | - | - |
| IBRD | 2.6 | 6.5 | 12.0 | 15.7 | 22.1 | 25.6 | 26.6 | 26.6 | 26.6 | 26.6 | 491.0 |
| ADB | 21.9 | 31.0 | 36.8 | 40.9 | 40.9 | 40.9 | 40.9 | 40.9 | 40.9 | 40.9 | 332.6 |
| EU | - | - | - | - | - | - | - | 74.4 | - | - | - |
| IFAD | 2.3 | 2.3 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 31.7 |
| OPEC | 3.3 | 4.1 | 4.9 | 4.9 | 4.9 | 4.9 | 4.5 | 4.5 | 3.9 | 3.9 | 13.0 |
| EBRD | 3.0 | 3.1 | 3.1 | 2.7 | 2.4 | 2.4 | 1.9 | 1.6 | 1.0 | 0.4 | 0.3 |
| EIB | 1.5 | 2.1 | 4.4 | 5.4 | 6.3 | 6.8 | 6.8 | 6.6 | 6.3 | 6.2 | 68.6 |
| EDB (EFSD) | - | - | - | - | - | - | 15.3 | 30.6 | 30.6 | 30.6 | 199.1 |
| ***Foreign currency denominated bonds*** | ***-*** | ***500.1*** | ***-*** | ***-*** | ***-*** | ***-*** | ***500.0*** | ***-*** | ***-*** | ***-*** | ***-*** |
| ***Bilateral creditors**, of which* | ***40.4*** | ***55.5*** | ***57.6*** | ***69.3*** | ***73.7*** | ***73.4*** | ***69.9*** | ***69.8*** | ***68.6*** | ***48.0*** | ***305.4*** |
| Russia | 20.0 | 33.4 | 33.4 | 33.4 | 33.4 | 33.4 | 33.4 | 33.4 | 33.4 | 13.4 | 13.4 |
| Japan (JICA) | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 131.5 |
| Germany (KfW) | 7.6 | 8.3 | 8.7 | 13.0 | 17.4 | 17.1 | 13.5 | 13.5 | 13.5 | 13.5 | 85.4 |
| USA | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.1 | 0.6 | 2.8 |
| France | 0.2 | 0.5 | 1.5 | 8.8 | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 | 62.5 |
| Abu Dhabi Fund for Development | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | - | - | - |
| Export-Import Bank of China | - | 0.8 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 9.8 |
| ***Commercial banks*** | ***1.8*** | ***1.8*** | ***2.2*** | ***2.2*** | ***2.2*** | ***2.2*** | ***2.2*** | ***1.4*** | ***1.4*** | ***1.0*** | ***4.2*** |
| ***External guarantees*** | ***-*** | ***-*** | ***-*** | ***-*** | ***0.3*** | ***0.6*** | ***0.6*** | ***0.6*** | ***0.6*** | ***0.6*** | ***4.6*** |
| **CBA External Public Debt**, *of which* | **64.3** | **75.8** | **84.8** | **66.9** | **59.9** | **46.9** | **37.1** | **28.2** | **14.8** | **11.9** | **59.5** |
| ***Multilateral creditors**, of which* | ***46.3*** | ***59.4*** | ***69.2*** | ***53.6*** | ***46.6*** | ***34.7*** | ***30.7*** | ***21.8*** | ***10.2*** | ***8.5*** | ***37.2*** |
| IMF | 39.4 | 47.7 | 52.5 | 36.8 | 29.7 | 17.7 | 13.6 | 9.1 | 1.8 | - | - |
| IBRD | 1.7 | 1.8 | 1.8 | 1.9 | 2.0 | 2.1 | 2.2 | 2.4 | 2.5 | 2.6 | 22.4 |
| ADB | - | 0.4 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 7.8 |
| EIB | 5.2 | 9.7 | 14.2 | 14.2 | 14.2 | 14.2 | 14.2 | 9.7 | 5.2 | 5.2 | 7.0 |
| ***Bilateral creditors**, of which* | ***18.0*** | ***16.3*** | ***15.6*** | ***13.3*** | ***13.3*** | ***12.2*** | ***6.4*** | ***6.4*** | ***4.6*** | ***3.4*** | ***22.3*** |
| Germany (KfW) | 18.0 | 16.3 | 15.6 | 13.3 | 13.3 | 12.2 | 6.4 | 6.4 | 4.6 | 3.4 | 22.3 |

Notes:

(1) The table reflects contractual payments of existing obligations as of 31 December 2018. Therefore, it does not include any borrowings or prepayments of External Public Debt by or on behalf of the Government or the CBA since 31 December 2018, including the issuance of the Notes.

(2) Foreign currency values of outstanding External Public Debt have been converted into dollars at the relevant market exchange rates as of 31 December 2018.

*Source:* Ministry of Finance.

The Government projects the following total principal service payments on Government securities denominated in AMD: U.S.$157.5 million in 2019, U.S.$152.6 million in 2020, U.S.$147.9 million in 2021, U.S.$85.9 million in 2022, U.S.$77.6 million in 2023, U.S.$88 million in 2025, U.S.$72.9 million in 2027, U.S.$38.6 million in 2028 and U.S.$394.8 million in 2029-2054. The Government projects the following total exposures under the Government domestic guarantees: U.S.$0.6 million in 2019, U.S.$4.8 million in 2020, U.S.$3.3 million in 2021 and U.S.$0.3 million in 2022.

The following table sets forth the projected total interest service payments on External Public Debt by type of creditor for the periods indicated:

**Projected Total External Public Debt Interest Service Requirements**[(1)]

| | As of 31 December | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029-2054** |
| | *(U.S.$ millions)*[(2)] | | | | | | | | | | |
| **Government External Public Debt**, *of which* | **174.9** | **171.8** | **137.5** | **132.7** | **127.3** | **121.5** | **115.5** | **73.5** | **64.4** | **57.9** | **286.7** |
| ***Multilateral creditors**, of which* | ***91.1*** | ***88.9*** | ***86.1*** | ***82.6*** | ***78.8*** | ***74.7*** | ***70.4*** | ***65.8*** | ***58.3*** | ***53.3*** | ***268.2*** |
| IDA | 23.1 | 22.0 | 20.7 | 19.5 | 18.2 | 16.8 | 15.5 | 14.1 | 12.7 | 11.3 | 56.9 |
| IMF | - | - | - | - | - | - | - | - | - | - | - |
| IBRD | 30.2 | 30.1 | 29.8 | 29.2 | 28.5 | 27.5 | 26.4 | 25.2 | 24.0 | 22.8 | 128.0 |
| ADB | 23.6 | 22.9 | 21.8 | 20.6 | 19.2 | 17.8 | 16.4 | 15.0 | 13.6 | 12.2 | 56.6 |
| EU | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | - | - | - |
| IFAD | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 1.8 |
| OPEC | 2.2 | 2.1 | 1.9 | 1.8 | 1.6 | 1.4 | 1.2 | 1.0 | 0.8 | 0.7 | 1.6 |
| EBRD | 0.6 | 0.5 | 0.4 | 0.3 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 | - | - |
| EIB | 2.0 | 2.0 | 1.9 | 1.9 | 1.8 | 1.7 | 1.6 | 1.5 | 1.3 | 1.2 | 7.4 |
| EDB (EFSD) | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.1 | 5.5 | 4.8 | 15.7 |
| ***Foreign currency denominated bonds*** | ***65.8*** | ***65.8*** | ***35.8*** | ***35.8*** | ***35.8*** | ***35.8*** | ***35.8*** | - | - | - | - |
| ***Bilateral creditors**, of which* | ***17.7*** | ***16.8*** | ***15.4*** | ***14.1*** | ***12.5*** | ***10.8*** | ***9.2*** | ***7.6*** | ***6.0*** | ***4.5*** | ***18.0*** |
| Russia | 9.4 | 8.8 | 7.8 | 6.8 | 5.8 | 4.8 | 3.8 | 2.8 | 1.8 | 0.8 | 0.4 |
| Japan (JICA) | 2.0 | 1.9 | 1.8 | 1.7 | 1.6 | 1.5 | 1.4 | 1.3 | 1.2 | 1.1 | 8.6 |
| Germany (KfW) | 3.8 | 3.6 | 3.5 | 3.3 | 3.0 | 2.7 | 2.3 | 2.0 | 1.8 | 1.5 | 5.3 |
| USA | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | - | - | - |
| France | 1.5 | 1.5 | 1.5 | 1.5 | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 | 0.9 | 3.1 |
| Abu Dhabi Fund for Development | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | - | - | - | - | - |
| Export-Import Bank of China | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.7 |
| ***Commercial banks*** | ***0.3*** | ***0.2*** | ***0.2*** | ***0.2*** | ***0.2*** | ***0.1*** | ***0.1*** | ***0.1*** | ***0.1*** | ***0.1*** | ***0.2*** |
| ***External guarantees*** | ***0.1*** | ***0.1*** | ***0.1*** | ***0.1*** | ***0.1*** | ***0.1*** | ***0.1*** | ***0.1*** | ***0.1*** | ***0.1*** | ***0.2*** |
| **CBA External Public Debt**, *of which* | **11.3** | **10.1** | **8.6** | **6.9** | **5.5** | **4.3** | **3.2** | **2.3** | **1.7** | **1.4** | **4.8** |
| ***Multilateral creditors**, of which* | ***9.2*** | ***8.2*** | ***7.0*** | ***5.7*** | ***4.5*** | ***3.5*** | ***2.7*** | ***1.9*** | ***1.4*** | ***1.1*** | ***3.4*** |
| IMF | 4.6 | 3.8 | 3.0 | 2.1 | 1.4 | 0.9 | 0.5 | 0.2 | - | - | - |
| IBRD | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 | 2.0 |
| ADB | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 1.1 |
| EIB | 3.3 | 3.2 | 2.9 | 2.5 | 2.1 | 1.7 | 1.2 | 0.8 | 0.6 | 0.4 | 0.3 |
| ***Bilateral creditors**, of which* | ***2.2*** | ***1.8*** | ***1.5*** | ***1.2*** | ***1.0*** | ***0.7*** | ***0.5*** | ***0.4*** | ***0.3*** | ***0.2*** | ***1.4*** |
| Germany (KfW) | 2.2 | 1.8 | 1.5 | 1.2 | 1.0 | 0.7 | 0.5 | 0.4 | 0.3 | 0.2 | 1.4 |

Notes*:*

(1) The table reflects contractual payments of existing obligations as of 31 December 2018. Therefore, it does not include any borrowings or prepayments of External Public Debt by or on behalf of the Government or the CBA since 31 December 2018, including the issuance of the Notes.

(2) Foreign currency values of outstanding External Public Debt have been converted into dollars at the relevant market exchange rates as of 31 December 2018.

*Source:* Ministry of Finance.

## Multilateral and Bilateral Development Organisations

### *IBRD (World Bank)*

Armenia became a member of the World Bank in 1992. Armenia's partnership with the World Bank has focused on, *inter alia*, achieving sustained economic growth, fostering development of the private sector, improving social services and protecting Armenia's environment. Since the inception of the World Bank's programmes in Armenia, the World Bank has approved 102 public sector loans (of which 67 are for IDA projects and 35 are for IBRD projects) totalling approximately U.S.$2.4 billion.

Armenia's borrowing from the World Bank has been largely on concessionary terms through the IDA. As of 30 June 2019, the total amount of External Public Debt owed to the World Bank in respect of IDA loans was U.S.$1,047.4 million. In 1992, Armenia became eligible for IBRD borrowing. As of 30 June 2019, the total amount of External Public Debt owed by the Government to the World Bank in respect of IBRD loans was U.S.$736.7 million (with a further US$42.6 million owed by the CBA).

Armenia became a member and shareholder of the International Finance Corporation (the "**IFC**") in 1995. Since that time, the IFC has invested approximately U.S.$362 million in 49 projects across a range of sectors, including financial markets, manufacturing and mining, and has assisted in securing an additional U.S.$118 million from other lenders.

The Government considers export expansion, firm competitiveness, human capital development, as well as sustainable management of environmental and natural resources as focus areas for further World Bank cooperation.

***IMF***

Armenia became a member of the IMF in 1992. Funds received from the IMF are held by the CBA to manage Armenia's international reserve position and by the Government to support Armenia's budget. As of 30 June 2019, the total amount owed to the IMF was U.S.$297.1 million, of which U.S.$231.4 million are payable by the CBA and U.S.$65.6 million by the Government.

In 2010, the IMF approved a blended Extended Fund Facility ("**EFF**") and Extended Credit Facility ("**ECF**") in for SDR266.8 million (the "**2010 EFF/ECF Arrangements**"). Armenia drew down the full amount of the 2010 EFF/ECF Arrangements, having received the final instalment of SDR55 million in June-July 2013 following the IMF's sixth and final review under the programme. Standard terms for EFF/ECF loans are as follows: a 10-year maturity period with a 4.5-5.5 year grace period (during which the borrower pays only interest), a variable interest rate for EFF loans and a fixed interest rate of 0.5% per annum for ECF loans. In March 2014, the IMF approved a 38-month EFF facility worth SDR82.21 million (approximately U.S.$127.6 million) aimed at supporting the domestic economy, reducing poverty, stabilizing inflation and reducing certain macroeconomic vulnerabilities. Since 1992, Armenia under various IMF's arrangements (ECF, EFF, SBA) has drawn down approximately SDR950 million. On 17 May 2019, the IMF Executive Board approved a U.S.$248.2 million stand-by arrangement for Armenia aimed at supporting Armenian authorities in strengthening economic fundamentals and policy frameworks. Under the arrangement, an amount equivalent to SDR 25.714 million (about U.S.$35.5 million) became available to Armenia immediately, with the remainder available subject to six semi-annual reviews. The Armenian authorities are treating the arrangement as precautionary, and do not intend to draw on the arrangement unless shocks generate balance of payment needs. Its extension also acts to strengthen confidence in, and support the structural reform agenda of, the new Government.

***ADB***

Armenia became a member of the ADB in 2005. To date, Armenia and the ADB have entered into 20 public sector loans for a total amount of approximately U.S.$1,095 million. The ADB has focused its investments on transportation infrastructure, energy, finance, urban infrastructure and services projects. Loans from the ADB are provided on concessional terms through the Asian Development Fund (the "**ADF**") and also through Ordinary Capital Resources ("**OCR**"). As of 30 June 2019, the total amount of ADF-funded External Public Debt was U.S.$369.1 million, and the total amount of OCR-funded External Public Debt was U.S.$355.6 million.

***EU***

In 2011-12, the EU provided to Armenia macro-financial assistance in the form of budget support in an aggregate amount of €100.0 million, of which €65.0 million was extended in the form of a loan and €35.0 million in the form of a grant. The loan was provided in two tranches (€26 million in 2011 and €39 million in 2012), both of which are to be repaid in 2026. The grant was provided in 2011. As of 30 June 2019, the total amount of External Public Debt owed to the EU was U.S.$74.0 million.

Armenia's framework for cooperation with the EU is the Single Support Framework for EU-support to Armenia, which sets out the strategic objectives and priorities for EU-Armenia cooperation through 2020. The Single Support Framework contemplates €144-176 million in EU financing in the priority areas of private sector development, public administration and justice.

***IFAD***

To date, Armenia and the IFAD have entered into seven public sector projects for a total amount of approximately SDR61.8 million. IFAD primarily invests in Armenia's agricultural sector. As of 30 June 2019, the total amount owed to IFAD was U.S.$64.1 million.

***OPEC***

To date, Armenia and OPEC have entered into five rural and agricultural development projects for a total amount of U.S.$74 million. As of 30 June 2019, the total amount owed to OPEC was U.S.$55.3 million.

***EBRD***

Most of the EBRD assistance to Armenia since 1991 has consisted of private sector investments, and thus do not comprise Public Debt. To date, Armenia and the EBRD have entered into 12 public sector projects for a total amount of approximately U.S.$162 million. EBRD's investments in the public sector of Armenia have focused mainly on projects to improve the environment and transportation infrastructure. As of 30 June 2019, the total amount of External Public Debt outstanding to the EBRD was U.S.$20.6 million.

***EIB***

Armenia entered into a framework agreement with the EIB in 2008. In 2010, the EIB launched its first project in Armenia, providing funding for the reconstruction of the Yerevan Metro. As of 30 June 2019, the total amount outstanding owed to the EIB was U.S.$119.8 million.

***EEU***

Armenia officially joined the EEU in January 2015. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*." Armenia has received two grants (U.S.$42 million and RUB130 million) to support the country's integration into the EEU.

***EDB***

The Government has entered into three loan agreements for a total amount of U.S.$490 million with the EDB (as an administrator of EFSD). As of 30 June 2019, the total amount of External Public Debt outstanding to the EDB was U.S.$308.1 million.

## TERMS AND CONDITIONS OF THE NOTES

The issue of the Notes is authorised pursuant to The Law of the Republic of Armenia on the Securities Market, dated 11 October 2007, as amended. A fiscal agency agreement dated 26 September 2019 (the "**Fiscal Agency Agreement**") will be entered into in relation to the Notes between the Republic of Armenia ("**Armenia**"), acting through the Ministry of Finance of Armenia (the "**Issuer**"), and Citibank, N.A., London Branch as fiscal agent, registrar, transfer agent and paying agent. The fiscal agent, the paying agent, the transfer agent and the registrar for the time being are referred to below respectively as the "**Fiscal Agent**," the "**Registrar**," the "**Transfer Agent**" and the "**Paying Agent**" (which expression shall include the Fiscal Agent). The expression "**Paying and Transfer Agents**" shall include the Paying Agent and the Transfer Agent.

The Fiscal Agency Agreement includes the form of the Notes. Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to its detailed provisions. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying and Transfer Agents. The holders of the Notes (the "**Noteholders**") are bound by and are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them. References to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

### 1. FORM, DENOMINATION, TITLE AND STATUS

(a) **Form and denomination**: The Notes are in registered form, serially numbered and in principal amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**authorised denomination**").

(b) **Title**: Title to the Notes will pass by transfer and registration as described in Condition 2. The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related certificate, as appropriate) or anything written on it or on the certificate in respect of it (other than a duly executed transfer thereof)) and no person will be liable for so treating the holder. For this purpose, "**holder**" shall mean the person in whose name a Note is registered in the Register (as defined in Condition 2(a)).

(c) **Status:** The Notes are the direct, unconditional and unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured Public External Indebtedness of the Issuer, from time to time outstanding, provided, further, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other Public External Indebtedness and, in particular, shall have no obligation to pay other Public External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.

**Definition**: For the purposes of these Conditions "**Public External Indebtedness**" means any present or future indebtedness of Armenia, the Government of Armenia or the Ministry of Finance of Armenia (I) in the form of, or represented by, bonds, notes, debentures or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in or purchased and sold on any stock exchange, over-the-counter or other securities market and (II) denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of Armenia.

### 2. REGISTRATION AND TRANSFER OF NOTES

(a) **Registration**: The Issuer will cause a register (the "**Register**") to be kept at the specified office of the Registrar outside the United Kingdom on which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and of all transfers and redemptions of Notes.

(b) **Transfer**: Notes may, subject to the terms of the Fiscal Agency Agreement and to Conditions 2 (c) and 2(d), be transferred in whole or in part in an authorised denomination by lodging the relevant Note (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying and Transfer Agent.

No transfer of a Note will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven business days (as defined in Condition 6(c)), in the place of the specified office of the Registrar, of any duly made application for the transfer of a Note, deliver a new Note to the transferee (and, in the case of a transfer of part only of a Note, deliver a Note for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Note by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(c) **Formalities free of charge**: Any such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

(d) **Closed Periods**: Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) (i) during the period of 15 calendar days ending on and including the day immediately prior to 26 September 2029 (the "**Final Maturity Date**"); or (ii) during the period of 7 calendar days ending on (and including) any Record Date (as defined in Condition 6(a)) in respect of any payment of interest on the Notes.

## 3. NEGATIVE PLEDGE

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement) the Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") upon the whole or any part of the assets or revenues present or future of the Government of Armenia or the Ministry of Finance of Armenia to secure any of its Public External Indebtedness, or any guarantee of or indemnity in respect of any Public External Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Notes (i) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in Condition 11) of the Noteholders.

## 4. INTEREST

Each Note bears interest from and including 26 September 2019 at the rate of 3.95% per annum payable semi-annually in arrear on 26 March and 26 September in each year (each an "**Interest Payment Date**"), commencing on 26 March 2020. Each Note will cease to bear interest from and including the due date for redemption thereof unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) up to but excluding whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder and (b) the day which falls seven days after the Fiscal Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Noteholders under these Conditions).

If interest is required to be calculated for a period of less than an Interest Period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed. The period beginning on and including 26 September 2019 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**."

## 5. REDEMPTION AND PURCHASE

(a) **Redemption**: Unless previously purchased and cancelled, the Notes will be redeemed at their principal amount on the Final Maturity Date.

(b) **Purchase and Cancellation**: The Issuer may, directly or through any of its agencies or instrumentalities, at any time purchase Notes in the open market or otherwise at any price. Any Notes so purchased may be cancelled or held and resold, provided that any Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for any other purpose pursuant to Conditions 8 and 11. Any Notes so purchased and cancelled may not be re-issued or resold.

## 6. PAYMENTS

(a) **Method of payment**: Payment of principal in respect of the Notes will be made to the persons shown in the Register at the close of business on the Record Date and subject to the surrender of the Notes at the specified office of any Paying and Transfer Agent. Payments of interest will be made to the persons shown in the Register at close of business on the relevant Record Date. For this purpose, "**Record Date**" means the seventh business day, in the place of the specified office of the Registrar, before the due date for the relevant payment. Each such payment will be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City.

(b) **Payments subject to fiscal laws**: All payments are subject in all cases to any applicable fiscal or other laws and regulations applicable at the place of payment, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Delay in payment**: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a business day or (ii) if the holder is late in surrendering (where so required) the relevant Note(s).

In these Conditions "**business day**" means a day on which commercial banks and foreign exchange markets are open in the relevant city and (where such surrender is required by these Conditions) in the place of the specified office of the relevant Paying and Transfer Agent to whom the relevant Note is surrendered.

(d) **Paying and Transfer Agents**: The initial Registrar and Paying and Transfer Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying and Transfer Agent and/or the Registrar and appoint additional or other Paying and Transfer Agents, provided that it will maintain (i) a Registrar and a Fiscal Agent and (ii) Paying and Transfer Agents having specified offices in at least two major European cities.

## 7. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Armenia or any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. If such withholding or deduction is required by law, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) **Other connection**: to a holder, or to a third party on behalf of a holder, who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Armenia other than the mere holding of the Note; or

(b) **Surrendered for payment more than 30 days after the Relevant Date**: surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrender of such Note for payment on the last day of such period of 30 days; or

(c) **Payment by another Paying and Transfer Agent**: to a holder, or to a third party on behalf of a holder, who would have been able to avoid such withholding or deduction by surrendering the relevant Note to another Paying and Transfer Agent.

In these Conditions "**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in New York City by the Fiscal Agent as provided in the Fiscal Agency Agreement on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition 7.

## 8. EVENTS OF DEFAULT

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) **Non-payment**: the Issuer fails to pay any amount of interest or principal on any of the Notes when due and such failure continues for a period of 10 calendar days in the case of principal and 15 calendar days in the case of interest; or

(b) **Breach of other obligations**: the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is incapable of remedy or if capable of remedy, is not remedied within 30 calendar days after notice of such default shall have been given to the Issuer (with a copy to the Fiscal Agent at its specified office) by any Noteholder; or

(c) **Cross-default**: (i) any Public External Indebtedness of the Issuer becomes due and payable prior to its stated maturity by reason of an event of default or the like (howsoever described), or (ii) any Public External Indebtedness of the Issuer is not paid when such Public External Indebtedness becomes due and payable, taking into account any originally applicable grace period, or (iii) the Issuer fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Public External Indebtedness, provided that the aggregate amount of such Public External Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent in another currency or currencies (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) **Moratorium**: the Issuer declares a general moratorium on the payment of principal of, or interest in respect of, any Public External Indebtedness of the Issuer or any present or future guarantee given by the Issuer for, or indemnity given by the Issuer in respect of, any Public External Indebtedness or is unable, or officially admits its inability, to pay its Public External Indebtedness, or under any present or future guarantee given by the Issuer for, or indemnity given by the Issuer in respect of, any Public External Indebtedness, as it falls due or commences negotiations with one or more of its creditors with a view to the general rescheduling of all or part of its Public External Indebtedness or any present or future guarantee given by the Issuer for, or indemnity given by the Issuer in respect of, any Public External Indebtedness; or

(e) **IMF**: (i) the International Monetary Fund ("**IMF**") deems that the Issuer is ineligible to use the general resources of the IMF, (ii) the Issuer ceases to be a member of the IMF or (iii) the IMF suspends the provision of any line of credit or any other facility granted by it to the Issuer the aggregate maximum principal amount of which, alone or together with other such lines of credit or facilities so suspended, if any, equals or exceeds U.S.$25,000,000 (other than by mutual agreement as a result of which the Issuer's eligibility to use the general resources of the IMF is not affected), and in the case of each event mentioned in this paragraph (e), such event is not remedied within 30 calendar days; or

(f) **Performance prevented**: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Fiscal Agency Agreement or any of such obligations shall be or become unenforceable or invalid; or

(g) **Repudiation**: the Issuer repudiates its obligations under the Notes or does any act or thing evidencing its intention to do so, or otherwise denies that the Notes or any of them constitute the legal, valid, binding and enforceable obligations of the Issuer; or

(h) **Consents etc.**: any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer to perform its obligations under the Notes or the Fiscal Agency Agreement or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified in a manner which adversely affects any right or claim of any of the Noteholders in respect of any payment due pursuant to these Conditions,

then the holders of at least 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer in accordance with Condition 14. If the Issuer receives notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any such declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent) in accordance with Condition 14, whereupon the relevant declaration shall be withdrawn and shall have no further force or effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

## 9. PRESCRIPTION

Claims in respect of principal and interest shall be prescribed and will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

## 10. REPLACEMENT OF NOTES

If any Note is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent, subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## 11. MEETINGS OF NOTEHOLDERS, WRITTEN RESOLUTIONS

(a) **Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions:**

(i) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the provisions of the Fiscal Agency Agreement. The Issuer will determine the time and place of the meeting and will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(ii) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10% in principal amount of the outstanding Notes (as defined in the Fiscal Agency Agreement and described in Condition 11(i)) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(iii) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Fiscal Agency Agreement. If the Fiscal Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.

(iv) The notice convening any meeting will specify, *inter alia*;

(A) the date, time and location of the meeting;

(B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;

(D) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;

(E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;

(F) whether Condition 11(b), or Condition 11(c), or Condition 11(d) shall apply and, if relevant, in relation to which other series of debt securities it applies;

(G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(H) such information that is required to be provided by the Issuer in accordance with Condition 11(f);

(I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 11(g); and

(J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(v) In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to this Condition 11(a) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(ix) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

(x) **“Debt Securities Capable of Aggregation**” means those debt securities which include or incorporate by reference this Condition 11 and Condition 12 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

(b) **Modification of this Series of Notes only:**

(i) Any modification of any provision of, or any action in respect of, these Conditions or the Fiscal Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(ii) A “**Single Series Extraordinary Resolution**” means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a) by a majority of:

(A) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or

(B) in the case of a matter other than a Reserved Matter, more than 50% of the aggregate principal amount of the outstanding Notes.

(iii) A “**Single Series Written Resolution**” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

(A) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or

(B) in the case of a matter other than a Reserved Matter more than 50% of the aggregate principal amount of the outstanding Notes.

(iv) Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

(v) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(c) **Multiple Series Aggregation – Single limb voting:**

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.

(ii) A “**Multiple Series Single Limb Extraordinary Resolution**” means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(iii) A “**Multiple Series Single Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.

(iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.

(v) The "**Uniformly Applicable**" condition will be satisfied if:

(A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to the currency of issuance).

(vi) Any modification or action proposed under paragraph (a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(c) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(d) **Multiple Series Aggregation – Two limb voting:**

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of:

(A) at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(A) at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iv) Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(v) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

(vi) Any modification or action proposed under paragraph (a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(d) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) **Reserved Matters:** In these Conditions, "**Reserved Matter**" means any proposal**:**

(i) to change the dates, or the method of determining the dates, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(iv) to change this definition, or the definition of "**Extraordinary Resolution**," "**Single Series Extraordinary Resolution**," "**Multiple Series Single Limb Extraordinary Resolution**," "**Multiple Series Two Limb Extraordinary Resolution**," "**Written Resolution**," "**Single Series Written Resolution**," "**Multiple Series Single Limb Written Resolution**" or "**Multiple Series Two Limb Written Resolution**;"

(v) to change the definition of "**debt securities**" or "**Debt Securities Capable of Aggregation**;"

(vi) to change the definition of "**Uniformly Applicable**;"

(vii) to change the definition of "**outstanding**" or to modify the provisions of Condition 11(i);

(viii) to change the legal ranking of the Notes set out in Conditions 1(c) and/or 3;

(ix) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, as set out in Condition 8;

(x) to change the law governing the Notes, the courts or arbitral tribunals to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken (including the obligation to maintain an agent for service of process in England) or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 17;

(xi) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;

(xii) to modify the provisions of this Condition 11(e);

(xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security; or

(xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Terms and Conditions as so modified than:

(A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or conversion; or

(B) if more than one series of other obligations or debt securities results from the relevant exchange or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

(f) **Information:**

(i) Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 11(b), Condition 11(c) or Condition 11(d), the Issuer shall publish in accordance with Condition 12, and provide the Fiscal Agent with the following information:

(A) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroecomic outlook;

(B) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(C) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(D) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 11(a)(iv)(G).

(g) **Claims Valuation:** For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 11(c) and Condition 11(d), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) **Manifest error, etc.:** The Notes, these Conditions and the provisions of the Fiscal Agency Agreement may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision hereof or thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

(i) **Notes controlled by the Issuer:**

(i) For the purposes of (a) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (b) Condition 11(a) and (c) Condition 8, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

(A) "**public sector instrumentality**" means the Central Bank of Armenia, any department, ministry or agency of the Government of Armenia or any corporation, trust, financial institution or other entity owned or controlled by the Government of Armenia or any of the foregoing; and

(B) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

(ii) A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

(iii) In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 12(d) which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) **Publication:** The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 12(g).

(k) **Exchange and Conversion:** Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

## 12. AGGREGATION AGENT; AGGREGATION PROCEDURES

(a) **Appointment:** The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Fiscal Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) **Extraordinary Resolutions:** If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions:** If a Written Resolution has been proposed under the Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate:**

(i) For the purposes of Condition 12(b) and Condition 12(c), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 11(b), Condition 11(c) or Condition 11(d), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution:

(ii) The certificate shall:

(A) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and

(B) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 11(i) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

(iii) The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Notification:** The Aggregation Agent will cause each determination made by it for the purposes of this Condition 12 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

(f) **Binding nature of determinations; no liability:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 12 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) **Manner of publication:** The Issuer will publish all notices and other matters required to be published pursuant to the Fiscal Agency Agreement including any matters required to be published pursuant to Condition 11, this Condition 12 and Condition 8:

(i) through Euroclear Bank SA/NV, Clearstream Banking S.A. and The Depository Trust Company and/or any other clearing system in which the Notes are held;

(ii) in such other places and in such other manner as may be required by applicable law or regulation; and

(iii) in such other places and in such other manner as may be customary.

## 13. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

Notwithstanding the foregoing, further notes that are not issued pursuant to a "qualified reopening" of the original series, are not otherwise treated as part of the same "issue" of debt instruments as the original series or are not issued at a premium, at the stated redemption price at maturity or with only *de minimis* original issue discount, in each case for U.S. tax purposes shall be issued with a CUSIP or ISIN different from that of the original Notes.

## 14. NOTICES

All notices to Noteholders shall be mailed to them at their respective addresses appearing in the Register and shall be deemed to have been given on the fourth weekday (excluding Saturday and Sunday) after the date of mailing. In addition, so long as the Notes are listed on the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**") and the rules or guidelines of that exchange so require, notices will be published via the companies announcements of Euronext Dublin. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

If it shall be impracticable to provide such notice to Noteholders as provided above, then such notification to the Noteholders as shall be given in accordance with the rules of Euronext Dublin shall constitute sufficient notice to the Noteholders for every purpose hereunder.

## 15. CURRENCY INDEMNITY

United States dollar (the "**Contractual Currency**") is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than the United States dollar (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Noteholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the

Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under any Note, the Issuer shall indemnify such recipient against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order, until paid in full.

## 16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## 17. GOVERNING LAW, ARBITRATION AND JURISDICTION

(a) **Governing law:**

The Fiscal Agency Agreement and the Notes, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.

(b) **Arbitration:**

Subject to Conditions 17(c) and 17(d), the Issuer and the Noteholders irrevocably and unconditionally agree that any dispute which may arise out of or in connection with the Notes or the Fiscal Agency Agreement (including any dispute regarding their existence, validity or termination and any dispute relating to non-contractual obligations arising out of or in connection with the Notes or the Fiscal Agency Agreement) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the Rules of Arbitration of the International Chamber of Commerce (the "**Rules**"). The place of such arbitration shall be Paris and the language English.

The arbitral tribunal shall be composed of three (3) arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator and the respondent(s), irrespective of number, shall nominate jointly the second arbitrator, in accordance with the Rules, for confirmation by the ICC Court. If a party or parties fail(s) to nominate an arbitrator, the appointment shall be made by the ICC Court. The third arbitrator, who shall serve as president of the arbitral tribunal, shall be nominated, for confirmation by the ICC Court, by agreement of the two party-nominated arbitrators within 15 days of the nomination of the second arbitrator, or, in default of such agreement, shall be appointed by the ICC Court as soon as possible.

(c) **Noteholders' option:**

Before the Noteholders have nominated an arbitrator to resolve any Dispute or Disputes pursuant to Condition 17(b), the Noteholders, at their sole option, may require by notice in writing to the Issuer that all Disputes or a specific Dispute be heard by a court of law. If the Noteholders give such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 17(d).

(d) **Jurisdiction**:

In the event that the Noteholders serve a written notice in respect of any Dispute(s) pursuant to Condition 17(c), the Issuer irrevocably agrees for the benefit of the Noteholders that the courts of England shall have exclusive jurisdiction to resolve and settle such Disputes and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as "**Proceedings**") may be brought in the courts of England. Nothing in this Condition shall limit any right of the Noteholders to take proceedings relating to a Dispute against the Issuer in any other court of competent jurisdiction, nor shall the taking of proceedings in one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not.

(e) **No objection to Proceedings:**

The Issuer irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agrees that a final non-appealable judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Issuer and may, subject to the proviso in paragraph (g) below, be enforced in the courts of any other jurisdiction to which the Issuer is or may be subject.

(f) **Agent for service of process:**

The Issuer irrevocably appoints the Embassy of Armenia, 25a Cheniston Gardens, Kensington, London W8 6TG, United Kingdom as its authorised agent for service of process in England. If for any reason such agent shall cease to be such agent for service of process, the Issuer shall appoint a new agent for service of process in England and deliver to the Fiscal Agent a copy of the new agent's acceptance of that appointment within 30 days.

(g) **Waiver of immunity:**

The Issuer hereby irrevocably waives, to the extent permitted by applicable law and international conventions, (a) any immunity from jurisdiction it may have in any Proceedings before the English courts or in arbitral proceedings under the Rules, and (b) except as provided below, any immunity from execution to which its assets or property might otherwise be entitled in any Proceedings in the courts of England, and agrees that it will not claim any such immunity in any such Proceedings.

Notwithstanding the foregoing, the above waiver shall not constitute a waiver of immunity from execution with respect to:

(i) assets and property of the Issuer located in Armenia;

(ii) the premises and property of the Issuer's diplomatic and consular missions;

(iii) assets and property of the Issuer outside Armenia not used or intended to be used for a commercial purpose;

(iv) assets and property of the Issuer's central bank or monetary authority and the international reserves of the Issuer held by the Issuer's central bank or the Issuer's monetary authority;

(v) assets and property of a military character or under the control of a military authority or defence agency of the Issuer; or

(vi) assets and property forming part of the cultural heritage of the Issuer.

For the purposes of the foregoing, "**property**" includes, without limitation, accounts, bank deposits, cash, revenues, securities and rights, including rights against third parties.

The foregoing constitutes a limited and specific waiver by the Issuer solely for the purposes of the Fiscal Agency Agreement and the Notes, and any non-contractual obligations arising out of or in connection with them, and under no circumstance shall it be construed as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to the Fiscal Agency Agreement or the Notes, or any non-contractual obligations arising out of or in connection with them.

## PROVISIONS RELATING TO THE NOTES WHILST IN GLOBAL FORM

*The Global Notes contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Notes, some of which modify the effect of the Terms and Conditions of the Notes. Unless elsewhere defined in this Prospectus, terms defined in the Terms and Conditions of the Notes have the same meaning in this section* "*Provisions relating to the Notes whilst in Global Form*."

### The Global Notes

The Notes will be evidenced on issue, in the case of Unrestricted Notes, by the Unrestricted Global Note (which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg) and, in the case of Restricted Notes, by the Restricted Global Note (which will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of DTC).

Beneficial interests in the Unrestricted Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*Clearing and Settlement—Book-Entry Ownership*." By acquisition of a beneficial interest in the Unrestricted Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not located in the United States.

Beneficial interests in the Restricted Global Note may only be held through DTC at any time. See "*Clearing and Settlement—Book-Entry Ownership*." By acquisition of a beneficial interest in the Restricted Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Fiscal Agency Agreement. See "*Transfer Restrictions*."

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Fiscal Agency Agreement, and with respect to Restricted Notes, as set forth in Rule 144A, and the Restricted Global Note will bear the legend set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*." A beneficial interest in an Unrestricted Global Note may be transferred to a person who takes delivery in the form of an interest in a Restricted Global Note in denominations greater than or equal to the minimum denominations applicable to interests in such Restricted Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Fiscal Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in a Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note and in accordance with Regulation S.

A beneficial interest in an Unrestricted Global Note that is transferred to a person who takes delivery in the form of an interest in a Restricted Global Note will, upon transfer, cease to be an interest in such Unrestricted Global Note and become an interest in the Restricted Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in the Restricted Global Note for as long as it remains such an interest. A beneficial interest in a Restricted Global Note that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note will, upon transfer, cease to be an interest in such Restricted Global Note and become an interest in the Unrestricted Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in an Unrestricted Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of the definitive registered certificates ("**Note Certificates**"). No Notes will be issued in bearer form.

### *Legends*

The holder of a Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar, the Transfer Agent or any Paying Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Note Certificate issued and sold in reliance on Rule 144A (a "**Restricted Note Certificate**") bearing the legend referred to under "*Transfer Restrictions*," or upon specific request for removal of the legend on a Restricted Note Certificate, the Issuer will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

**Amendments to Terms and Conditions of the Notes**

Each Global Note contains provisions that apply to the Notes that it evidences, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions.

***Payments***

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to, or to the order of, the person who appears in the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January, as holder of the Notes against presentation for endorsement by the Fiscal Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Fiscal Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

***Notices***

Notices to Noteholders may be given by delivery of the notice to the relevant clearing systems for communication by them to entitled account Noteholders.

***Meetings***

The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each integral U.S.$1,000 in principal amount of Notes.

***Cancellation***

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

**Exchange for Note Certificates**

***Exchange***

The Unrestricted Global Notes will be exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates if: (i) it is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 calendar days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 of the Terms and Conditions of the Notes which would not be suffered were the Notes in definitive form, by the Issuer giving notice to the Registrar and the Noteholders, in each case of its intention to exchange interests in the Unrestricted Global Notes for individual note certificates (the "**Unrestricted Note Certificates**," and together with the Restricted Note Certificates, the "**Note Certificates**") on or after the Exchange Date (as defined below) specified in the notice.

The Restricted Global Notes will be exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates if (i) the DTC or its successor depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Notes or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or is at any time unable to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary or (ii) the

Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 of the Terms and Conditions of the Notes which would not be suffered were the Notes in definitive form, by the Issuer giving notice to the Registrar and the Noteholders, in each case, of its intention to exchange interests in the Restricted Global Notes for Restricted Note Certificates on or after the Exchange Date specified in the notice.

"**Exchange Date**" means a day falling not later than 60 calendar days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the relevant Paying and Transfer Agent is located.

If any of the events in the first or second paragraphs of this section ("—*Exchange*") occurs, the relevant Global Note shall be exchangeable in full for Note Certificates, and the Issuer will, free of charge to the Noteholders (but against such indemnity as the Registrar or any relevant Paying Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Note Certificates to be executed and delivered to the Registrar for completion and despatch to the relevant Noteholders. A person having an interest in a Restricted Global Note or an Unrestricted Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registar may require to complete, execute and deliver such Note Certificates and (b) in the case of a Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of a simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A or to a QIB. Except as otherwise permitted, Restricted Note Certificates issued in exchange for an interest in a Restricted Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*."

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

# CLEARING AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Fiscal Agency Agreement (as defined in the Terms and Conditions of the Notes) will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

## The Clearing Systems

Custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*—Book-Entry Ownership*" and "*—Settlement and Transfer of Notes*" below.

Investors may hold their interests in a Global Note directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**") through organisations which are Direct Participants therein.

## Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

## DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Restricted Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**DTC Rules**"), DTC makes book-entry transfers of Restricted Notes represented by a Restricted Global Note among Direct Participants on whose behalf it acts with respect to Restricted Notes and receives and transmits distributions of principal and interest on Restricted Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of Restricted Notes have accounts with respect to the Restricted Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their beneficial owners. Accordingly, although beneficial owners who hold Restricted Notes through Direct Participants or Indirect Participants will not possess

Restricted Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Participants will receive payments and will be able to transfer their interest in respect of the Restricted Notes.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Restricted Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Provisions Relating to the Notes whilst in Global Form—Exchange for Note Certificates*," DTC will cause its custodian to surrender the Restricted Global Notes in exchange for Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

***Payments through DTC***

Payments of principal and interest in respect of a Global Note registered in the name of, or in the name of a nominee for, DTC are, and will be, made to the order of DTC or such nominee (as the case may be) as the registered holder of such Note.

**Book-Entry Ownership**

***Euroclear and Clearstream, Luxembourg***

The Unrestricted Global Note evidencing Unrestricted Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

***DTC***

The Restricted Global Note evidencing the Restricted Notes will have an ISIN, Common Code and CUSIP number and will be deposited with the Custodian and registered in the name of Cede & Co. as nominee of DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

***Relationship of Participants with Clearing Systems***

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by a Global Note must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for its share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant Clearing System with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant Clearing System or its nominee. The Issuer also expects that payments by Direct Participants in any Clearing System to owners of beneficial interests in any Global Note held through such Direct Participants in any Clearing System will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder of such Global Note in respect of each amount so paid. None of the Issuer, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

**Settlement and Transfer of Notes**

Subject to the rules and procedures of each applicable Clearing System, purchases of Notes held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Notes on the Clearing System's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates evidencing their ownership interests in such Notes, unless and until interests in any Global Note held within a Clearing System are exchanged for Note Certificates.

No Clearing System has knowledge of the actual Beneficial Owners of the Notes held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Restricted Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

***Trading between Euroclear and Clearstream, Luxembourg Participants***

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg, will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

***Trading between DTC Participants***

Secondary market sales of book-entry interests in the Notes between DTC Participants, will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in dollars, or free of payment, if payment is not effected in dollars. Where payment is not effected in dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

***Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser***

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in a Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in an Unrestricted Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of a Restricted Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Restricted Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

***Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser***

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in a

Restricted Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of such Restricted Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by an Unrestricted Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by such Restricted Global Note.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Notes among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

**Settlement of Pre-issue Trades**

It is expected that delivery of Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within two business days (T+2), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the Closing Date should consult their own advisers.

## TAXATION

*The following discussion summarises certain Armenian tax considerations that may be relevant to holders of Notes. It also includes a limited discussion of certain United States federal income tax considerations and certain EU tax considerations. This summary is based on laws, regulations, rulings and decisions now in effect and is subject to changes in tax law, including changes that could have a retroactive effect.*

*This summary does not describe all of the tax considerations that may be relevant to holders of Notes, particularly holders of Notes subject to special tax rules. Holders of Notes are advised to consult their own professional advisers as to the consequences of purchasing Notes under the tax laws of the country of which they are resident.*

### Armenian Taxation

The following is a summary of certain Armenian tax considerations relevant to the acquisition, ownership and disposal of the Notes.

**The following summary is included for general information only. Prospective investors should consult their own tax adviser as to the tax consequences under the laws of Armenia of the acquisition, ownership and disposition of the Notes. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of Armenian legislation, tax law and practice in Armenia is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that changes may be made in the law or in the current interpretation of the law or current practice, including changes that could have a retroactive effect. Accordingly, it is possible that holders of the Notes could become subject to Armenian taxation in ways that cannot be anticipated as at the date of this Prospectus.**

#### *Tax on Issue of the Notes*

No state duty or similar tax will be payable in Armenia upon the issue of the Notes.

#### *Tax Implications for Non-Residents of Armenia*

Under the Tax Code, income earned by non-resident legal entities in the form of interest or income (discount) on state securities and any capital gains by a non-resident legal entity from disposal of the Notes are not treated as taxable income and not subject to withholding or deduction by Armenia or any political subdivision thereof on payments under the Notes.

Under the Tax Code, income earned by non-resident individuals from the purchase, holding, sale, disposal or exchange of Government securities, including the Notes, is not treated as taxable income and therefore will not be subject to personal income taxation.

#### *Gross-up Obligations*

Condition 7 of the Terms and Conditions of the Notes requires Armenia to increase the payment of principal or interest made in respect of the Notes in the event any taxes are withheld or deducted, subject to the exceptions therein provided. Although there is no prohibition on contractual compensation for tax withholding under Armenian law, gross-up provisions similar to those under Condition 7 of the Terms and Conditions of the Notes have not been tested in Armenian courts. Consequently, Armenian courts may construe the gross-up provisions of Condition 7 of the Terms and Conditions of the Notes as invalid and, therefore, unenforceable against the Issuer.

### United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a holder of a Note. This summary addresses only holders that purchase Notes as part of the initial offering, and that hold such Notes as capital assets. The summary does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks or other financial institutions, tax-exempt entities, partnerships (or entities or arrangements treated as partnerships for U.S. federal income tax purposes) or partners therein, insurance companies, individual retirement accounts and other tax-deferred accounts, brokers, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold the Notes as a position in a "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, U.S. citizens or lawful permanent residents living abroad or persons that have a "functional currency" other than the dollar.

This summary addresses only U.S. federal income tax consequences, and does not address consequences arising under state, local or non-U.S. tax laws, the alternative minimum tax or the Medicare tax on net investment income. Investors should consult their own tax advisers in determining the tax consequences to them of holding Notes under such tax laws, as well as the application to their particular situation of the U.S. federal income tax considerations discussed below.

This summary is based on the Internal Revenue Code of 1986, as amended, existing, proposed and temporary U.S. Treasury regulations and judicial and administrative interpretations thereof, in each case as of the date hereof. All of the foregoing are subject to change (possibly with retroactive effect) or to differing interpretations, which could affect the U.S. federal income tax consequences described herein.

As used herein, a "**U.S. Holder**" is a beneficial owner of a Note that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise will be subject to U.S. federal income taxation on a net income basis in respect of the Note. A "**Non-U.S. Holder**" is a beneficial owner of a Note that is an individual, corporation, foreign estate, or foreign trust that is not a U.S. Holder.

## U.S. Holders

### *Book/Tax Conformity*

U.S. Holders that use an accrual method of accounting for tax purposes ("accrual method holders") generally are required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements (the "book/tax conformity rule"). The application of the book/tax conformity rule thus may require the accrual of income earlier than would be the case under the general tax rules described below. It is not clear to what types of income the book/tax conformity rule applies, or, in some cases, how the rule is to be applied if it is applicable. Accrual method holders should consult with their tax advisers regarding the potential applicability of the book/tax conformity rule to their particular situation.

### *Payments of Interest and Additional Amounts*

The gross amount of stated interest and any additional amounts (*i.e.*, without reduction for any Armenian withholding tax imposed at the appropriate Armenian withholding tax rate applicable to the U.S. Holder) will generally be taxable to a U.S. Holder as ordinary interest income when such interest is accrued or is actually or constructively received, in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

Interest income in respect of the Notes generally will constitute foreign-source income for purposes of computing the foreign tax credit allowable under the U.S. federal income tax laws. The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. Interest income in respect of the Notes generally will constitute "passive category income" for foreign tax credit purposes for most U.S. Holders. The calculation and availability of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign income taxes, the availability of such deduction, involves the application of complex rules that depend on the U.S. Holder's particular circumstances. In addition, foreign tax credits generally will not be allowed for certain short-term or hedged positions in the Notes.

U.S. Holders should consult their own tax advisers regarding the availability of foreign tax credits or deductions in respect of foreign taxes and the treatment of additional amounts.

### *Original Issue Discount*

It is expected, and this discussion assumes, that the Notes will not be issued with more than a *de minimis* amount of original issue discount ("**OID**"). In general, however, if the Notes are issued with more than *de minimis* OID, a U.S. Holder will be required to include OID in gross income, as ordinary income, under a "constant-yield method" before the receipt of cash attributable to such income, regardless of the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

***Sale or Disposition of Notes***

A U.S. Holder generally will recognize capital gain or loss upon the sale, exchange, retirement or other taxable disposition of a Note in an amount equal to the difference between the dollar value of the amount realised upon such disposition (other than amounts attributable to accrued but unpaid interest, which will be taxable as such) and such U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis in the Note will generally equal the cost of the Note to such U.S. Holder, increased by the amount of any OID included in the U.S. Holder's income with respect to the Note. Gain or loss realised by a U.S. Holder on the disposition of a Note generally will be long-term capital gain or loss if, at the time of the disposition, the Note has been held for more than one year. The net amount of long-term capital gain recognized by an individual U.S. Holder generally is subject to tax at a reduced rate. The deductibility of capital losses is subject to limitations.

Capital gain or loss recognized by a U.S. Holder generally will be U.S.-source gain or loss. Consequently, if any such gain is subject to foreign tax, a U.S. Holder may not be able to credit the tax against its U.S. federal income tax liability unless such credit can be applied (subject to the applicable limitation) against tax due on other income treated as derived from foreign sources. U.S. Holders should consult their own tax advisers as to the foreign tax credit implications of a disposition of the Notes.

***Specified Foreign Financial Assets***

Certain U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of $50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which may include Notes issued in certificated form) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisers concerning the application of these rules to their investment in the Notes, including the application of the rules to their particular circumstances.

**Non-U.S. Holders**

***Payments of Interest***

Subject to the discussions below under "Backup Withholding and Information Reporting," payments of interest on the Notes to a Non-U.S. Holder generally will be exempt from U.S. federal income taxes, including withholding tax. However, to receive this exemption a Non-U.S. Holder may be required to satisfy certification requirements, described below under "Backup Withholding and Information Reporting," to establish that it is not a U.S. Holder.

***Sale, Exchange and Retirement of Notes***

Subject to the discussion below under "Backup Withholding and Information Reporting," a Non-U.S. Holder generally will not be subject to U.S. federal income tax on gain recognized on a sale, exchange or retirement of Notes.

**Backup Withholding and Information Reporting**

Information returns will be filed with the IRS in connection with payments on the Notes made to, and the proceeds of dispositions of Notes effected by, certain U.S. Holders. In addition, certain U.S. Holders may be subject to backup withholding in respect of such amounts if they do not provide their taxpayer identification numbers to the person from whom they receive payments. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding. The amount of any backup withholding from a payment to a U.S. or Non-U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is timely furnished to the IRS.

**The Proposed Financial Transaction Tax**

The European Commission has published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transaction tax ("**FTT**") in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT remains subject to negotiation between participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

Each of Citigroup Global Markets Limited and J.P. Morgan Securities plc (each, a "**Joint Lead Manager**" and, together, the "**Joint Lead Managers**") has, in a subscription agreement dated 24 September 2019 (the "**Subscription Agreement**") and upon the terms and subject to the conditions contained therein, severally agreed to subscribe and pay for the aggregate principal amount of Notes listed next to its name in the table below at the issue price of 97.976% of their principal amount. The Issuer has agreed to pay to the Joint Lead Managers a fee in respect of their agreement to subscribe and pay for the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

| **Joint Lead Manager** | **Principal Amount of the Notes** |
|---|---|
| Citigroup Global Markets Limited | U.S.$250,000,000 |
| J.P. Morgan Securities plc | U.S.$250,000,000 |
| **Total** | **U.S.$500,000,000** |

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Joint Lead Managers have agreed, severally and not jointly, nor jointly and severally, to offer the Notes for resale in the United States initially only to persons who they reasonably believe to be QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

The Notes are being offered and sold by the Joint Lead Managers outside the United States in accordance with Regulation S. The Subscription Agreement provides that the Joint Lead Managers may, through their respective U.S. affiliates, resell a portion of the Notes within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A, or another available exemption from registration under the Securities Act.

### United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated and invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### Singapore

Each Joint Lead Manager has acknowledged that the Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore), as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

**Armenia**

Under current securities laws in Armenia, there are no restrictions on the offer or sale of foreign currency denominated state bonds, such as the Notes.

Each Joint Lead Manager has represented and agreed that it has complied and will comply with all applicable provisions of Armenian law with respect to anything done by it in relation to the Notes in, from or otherwise involving Armenia.

**Hong Kong**

Each Joint Lead Manager has represented and agreed that it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO.

**General**

Each Joint Lead Manager has severally acknowledged that no representation is made by the Issuer or any Joint Lead Manager that any action has or will be taken in any jurisdiction by the Issuer or any Joint Lead Manager that would permit a public offering of the Notes, or possession or distribution the Prospectus in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has undertaken that it will comply to the best of its knowledge and belief in all material respects, with all applicable securities laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus, in all cases at its own expense unless agreed otherwise.

Some of the Joint Lead Managers, dealers and agents who participate in the distribution of the Notes may engage in other transactions with, or perform other services for, the Issuer in the ordinary course of business, for which they may have received or will continue to receive customary compensation.

## TRANSFER RESTRICTIONS

The Issuer is a "foreign government" as defined in Rule 405 under the Securities Act and is eligible to register securities on Schedule B of the Securities Act. Therefore, the Issuer is not subject to the information provision requirements of Rule 144A(d)(4)(i) under the Securities Act.

Each purchaser of Restricted Notes, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acquiring the Notes for its own account, or for the account of a QIB, (c) not formed for the purpose of investing in the Issuer, and (d) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has the full power to make the foregoing representations, agreements and acknowledgements on behalf of each such account.

2. It understands that the Restricted Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and that the Restricted Notes have not been and will not be registered under the Securities Act or any applicable state securities laws; it acknowledges that a Restricted Note is a "restricted security" as defined in Rule 144(a)(3) under the Securities Act; and it understands that (i) if in the future, the purchaser decides to offer, resell, pledge or otherwise transfer the Restricted Notes, such Restricted Notes may be offered, sold, pledged or otherwise transferred only (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144A thereunder (if available) or (d) to the Issuer or an affiliate of the Issuer (upon redemption thereof or a similar transaction), in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; and (ii) no representation can be made as to the availability at any time of the exemption provided by Rule144 for the resale of the Notes.

3. The Issuer has the right to refuse to honour the transfer of an interest in the Restricted Notes to a U.S. person who is not a QIB.

4. It understands that the Restricted Notes, unless otherwise agreed between the Issuer and the Fiscal Agent in accordance with applicable law, will bear a legend to substantially the following effect:

   THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO THE ISSUER, (2) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**"), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER, IF AVAILABLE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THE NOTES.

5. It understands that the Restricted Notes will be evidenced by the Restricted Global Note. Before any interest in a Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note, it will be required to provide a Paying and Transfer Agent with a written certification (in the form provided in the Fiscal

Agency Agreement (as defined in the Terms and Conditions of the Notes)) as to compliance with applicable securities laws.

6. It acknowledges that none of the Issuer, the Joint Lead Managers or any person representing any such entity has made any representation to it with respect to any such entity or the offering or sale of any Notes, other than the information in this Prospectus.

7. It acknowledges that the Issuer, the Registrar, the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Restricted Notes is no longer accurate, it shall promptly notify the Issuer and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

8. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser of the Unrestricted Notes, by accepting delivery of this Prospectus and the Notes, will have been deemed to have represented, agreed and acknowledged that:

1. It is, or at the time the Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes and (a) that it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

2. It understands that the Unrestricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state of the United States.

3. It understands that the Notes, while represented by the Unrestricted Global Note or if issued in exchange for an interest in the Unrestricted Global Note or for Unrestricted Note Certificates, will bear a legend to the following effect:

   THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"). THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

4. It understands that Unrestricted Notes will be evidenced by an Unrestricted Global Note. Before any interest in an Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the corresponding Restricted Global Note, it will be required to provide a Paying and Transfer Agent with a written certification (in the form provided in the Fiscal Agency Agreement) as to compliance with applicable securities laws.

5. It acknowledges that none of the Issuer, the Joint Lead Managers or any person representing any such entity has made any representation to it with respect to any such entity or the offering or sale of any Notes other than the information in this Prospectus.

6. It acknowledges that the Issuer, the Registrar, the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Unrestricted Notes is no longer accurate, it shall promptly notify the Issuer and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect

to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

## GENERAL INFORMATION

### Authorisation

Armenia has obtained all necessary consents, approvals and authorisations in the Republic of Armenia in connection with the issue and performance of the Notes. The issue of the Notes has been duly authorised pursuant to Articles 146 and 154 of the Constitution of Armenia, Articles 2 and 7 of the Law on State Debt and the Decree of the Government No. 895, dated 4 July 2019.

### Listing and Admission to Trading

Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the Market. It is expected that admission of the Notes to trading will be granted on or the next working day after the Closing Date. Transactions will normally be effected for delivery on the third working day after the day of the transaction, subject only to the issue of the Global Notes.

The expenses in connection with the admission of the Notes to the Official List and to trading on the Market are expected to amount to approximately €5,000.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for Armenia in relation to the Notes and is not itself seeking admission to the Official List or trading on the regulated market of Euronext Dublin for the purposes of the Prospectus Regulation.

### Clearing Systems

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and ISIN for the Unrestricted Global Note and the Common Code, ISIN and CUSIP number for the Restricted Global Note are as follows:

***Unrestricted Global Note***
Common Code: 201004390
ISIN: XS2010043904

***Restricted Global Note***
ISIN: US042207AC41
CUSIP: 042207AC4

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, NY 10041, United States of America.

### Litigation

Other than as discussed under "*Risk Factors—Risk Factors Relating to Armenia—Possible Environmental Issues at the Amulsar Gold Mine and Possible Claims by Mine Owner*," Armenia has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Armenia is aware) during the previous 12 months that may have, or have had in the recent past, significant effects on Armenia's financial position.

### No Significant Change

Since 31 December 2018, there has been no significant change in the Issuer's (i) tax and budgetary systems, (ii) gross public debt, (iii) foreign trade and balance of payments figures, (iv) foreign exchange reserves, (v) financial position and resources and (vi) income and expenditure figures.

### Yield

On the basis of the issue price of 97.976 per cent. of the principal amount of the Notes, the re-offer yield of the Notes is 4.2 per cent., on a semi-annual basis.

**Address**

The address of the Issuer is Ministry of Finance of the Republic of Armenia, 1, Melik-Adamyan Street, Yerevan, 0010, Armenia. The telephone number of the Issuer is +374 11 910 416.

**Documents Available for Inspection**

For so long as the Notes are listed on Euronext Dublin, hard copies of the Fiscal Agency Agreement may be inspected during normal business hours at the offices of the Fiscal Agent, as set forth on the back cover of this Prospectus. The 2019 State Budget is available free of charge on the website of the Ministry of Finance (http://www.minfin.am) for the life of the Prospectus.

**Third Party Information**

Armenia confirms that where information included in this Prospectus has been sourced from a third party, that information has been accurately reproduced and that, as far as Armenia is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

**Websites**

Any reference to websites in this Prospectus is for information purposes only. Any website referred to in this Prospectus shall not form part of this Prospectus and has not been scrutinised or approved by the Central Bank of Ireland.

**Interested Persons**

Save as described in "*Subscription and Sale*," so far as the Issuer is aware, no person involved in the offering of the Notes has any interest in the offering of the Notes that is material to the offering of the Notes.

**Joint Lead Managers Transacting with the Issuer**

Certain of the Joint Lead Managers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer in the ordinary course of business.

**Legal Entity Identifier**

The Legal Entity Identifier of the Issuer is 2549008QLWTFS81EUF38.

**Language**

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

## ISSUER

**Republic of Armenia**
(acting through the Ministry of Finance of Armenia)
1, Melik-Adamyan Street
Yerevan 0010
Republic of Armenia

## JOINT LEAD MANAGERS

**Citigroup Global Markets Limited**
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**J.P. Morgan Securities plc**
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

## FISCAL AGENT, EXCHANGE AGENT, TRANSFER AGENT AND PAYING AGENT

**Citibank, N.A., London Branch**
14th Floor, Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

## LEGAL ADVISERS TO THE ISSUER

*As to English and U.S. law*
**Cleary Gottlieb Steen & Hamilton LLP**
City Place House
55 Basinghall Street
London EC2V 5EH
United Kingdom

## LEGAL ADVISERS TO THE JOINT LEAD MANAGERS

*As to English and U.S. law*
**Linklaters LLP**
One Silk Street
London EC2Y 8HQ
United Kingdom

*As to Armenian law*
**Arlex International CJSC**
2/3 Sose Lane, 2
Yerevan
Republic of Armenia

## LISTING AGENT

**Arthur Cox Listing Services Limited**
Ten Earlsfort Terrace
Dublin 2
Ireland