

Ministry of Finance
of the Republic of Armenia



STATE BUDGET
OF THE REPUBLIC OF ARMENIA FOR 2018
BRIEF GUIDE

Yerevan 2017

1. Table of Contents

1.	Table of Contents	2
2.	A word to the Reader	3
3.	What is budget?	4
4.	What is the process of elaborating the State Budget, its deliberation and approval by the National Assembly?	7
5.	Fiscal Policy.....	8
6.	Forecasts on the main macro-economic indicators characterising the socio-economic situation in the Republic of Armenia for 2018	9
7.	Budget framework for 2018	17
8.	Revenues.....	20
9.	Expenditures	25
10.	State Budget deficit and public debt.....	34
11.	Monitoring and oversight of the State Budget execution	40
12.	Tables, figures.....	41

2. A word to the Reader

According to the definition provided for by the law of our country, a state budget for a certain year is the financial programme for generating and spending the monetary means necessary for exercising the powers reserved to the State by the Constitution and laws.

It has been envisaged by the approved State Budget that the state and local self-government bodies of the Republic of Armenia will have the opportunity of spending in 2018 around AMD 1,500.5 billion from the consolidated budget. This means that the expenditure per each citizen during the year will estimate at around AMD 447.8 thousand. The main part of that sum is generated from the taxes and other mandatory payments paid by citizens (natural persons) and organisations (legal persons) to relevant budgets.

The sums accumulated in the budgets are spent for various purposes, directed at the financing of programmes and transactions which require budget funding of various volumes.

Undoubtedly, each Armenian is concerned with the issues of purposefulness and effectiveness of the State Budget expenditures. However, the main question is the extent to which you are aware of the State Budget not as a financial officer, but simply as a citizen.

Hopefully, this Guide will make the State Budget clearer and more accessible to all the readers. We expect that it will provide the reader with the opportunity of fully becoming familiar with the 2018 State Budget that is approved in the financial and legal language and is not very comprehensible for the public.

Below we will present the volumes of funds to be collected in the 2018 State Budget and the purpose for which they need to be spent, the volume of Armenia's public debt to other countries and international organisations, as well as how and by whom the budget is drawn up, approved and executed.

We believe that this Guide will serve its ultimate goal by helping the reader become familiar with the content of the 2018 State Budget of our country.

For more detailed information on the 2018 State Budget of the Republic of Armenia, please visit the official website of the Ministry of Finance of the Republic of Armenia (www.minfin.am).

3. What is budget?

Before introducing the 2018 State Budget, let's try to clarify what is a state budget in general?

The word "բյուջե" derives from the Middle English word "budget", which was used to denote "pouch", where the kings used to keep the collected taxes and wherefrom they paid the expenditures required for state needs. Nowadays, the concept having derived from that word can be said to have still retained its very essence: changes have been made to the scopes of budgets (who and in what amount should make payments to the budgets, who and to what extent can benefit from the expenditures made from the budgets), the decision-making institutions (parliaments, governments, etc.) and the mechanisms for decision-making; however, the content remains the same.

The budgetary system of the Republic of Armenia consists of state and community budgets, which are together called a consolidated budget. According to the legislation, the consolidated budget is defined as a set of financial programmes for a certain period of time for generating and spending the monetary means necessary for state and local self-government bodies in order to exercise the powers vested therein by the Constitution and laws. In other words, these budgets are the financial programmes of the Government of the Republic of Armenia or local self-government bodies for a certain period of time, which reflect:

- the amount of monetary means (funds) that the Government and the community can collect and dispose in order to meet the needs of the state and the

community. Moreover, such means are classified into the following main types — taxes and duties, other revenues, official grants;

- the directions, amounts of spending of the monetary means (funds) collected by the Government and the community, and the further expected outcomes. For instance, the amount of funds, sectors of economy and groups of society where they need to be spent, and its purpose (defence, national security, maintaining public order, environmental conservation, education, vulnerable social groups, the youth, etc.);
- the programmes for attraction of borrowings (debt) and repayment of the public debt by the State. Namely, if the expenditures exceed the revenues, the Government seeks means to cover that difference through attraction of public debt.

We believe it becomes clear from the aforementioned that the state and community budgets serve the implementation of the country's development programme and hence affect the progress of the country. Monetary means are redistributed through budgets — collected revenues are directed at the expenditures ensuring the country's development (defence, national security, education, science, etc.). For any country, its progress, and therefore the well-being of each citizen, depends on the proper use of budgets.

As already mentioned, the volume of (state and community) expenditures of the consolidated budget of the Republic of Armenia (without intra-budget transfers) is forecast at AMD 1,500.5 billion in the current year.

According to the draft Law of the Republic of Armenia "On the State Budget of the Republic of Armenia for 2018", the 2018 consolidated budget of the Republic of Armenia is forecast at: AMD 1,343.5 billion in revenues (without receipts generated from intra-budget transfers), AMD 1,500.5 billion in expenditures (without intra-budget transfers), and AMD 157,0 billion in the deficit.

Table 3-1. Actual indicators for the consolidated budget of the Republic of Armenia for 2012-2016 (AMD billion)

	2012	2013	2014	2015	2016
Revenues	975.3	1,101.7	1,178.2	1,201.7	1,205.8
Expenditures	1,037.1	1,170.5	1,268.8	1,444.0	1,485.3
Deficit	61.8	68.8	90.6	242.3	279.5

The volume of community budgets of the Republic of Armenia for 2018 is estimated at AMD 130.1 billion in revenues (including the allocations received from the State Budget) and expenditures.

It is noteworthy that the increase in indicators of the consolidated budget of the Republic of Armenia is conditioned not only upon the continuous improvement in the State Budget indicators, but also reflects the trends in the increase of the level of community budget revenue collection and, as a result, the increase in the volumes of expenditures. The dynamics of the growth in the volumes of actually collected own revenues of community budgets for 2012-2016 (without official grants received from the State Budget and the allocations to be received for financing the powers delegated to community heads by the State) is presented in the Table below:

Table 3-2. Actual indicators of own revenues of community budgets of the Republic of Armenia for 2012-2016 (AMD billion)

2012	2013	2014	2015	2016
28.9	30.4	33.4	34.0	34.7

4. What is the process of elaborating the State Budget, its deliberation and approval by the National Assembly?

The process of elaborating the State Budget of the Republic of Armenia is defined in the Law of the Republic of Armenia "On the budgetary system of the Republic of Armenia". The elaboration of the draft State Budget starts months before submitting it to the National Assembly. The budgeting process officially starts on the day of adoption, by the Prime Minister of the Republic of Armenia, of the decision on starting the budgeting process for the given year. The activities to be performed within the scope of elaborating the draft State Budget, those performing the activities and the performance schedule are defined by that decision.

The process of elaborating the draft State Budget consists of two stages: (i) elaboration of the Medium-Term Public Expenditure Framework of the Republic of Armenia (hereinafter referred to as the "Medium-Term Expenditure Framework") for the upcoming three years, aimed at creating appropriate frameworks for elaborating the State Budget for the upcoming year; and (ii) elaboration of the draft State Budget for the upcoming year.

The elaboration of the Medium-Term Expenditure Framework is aimed at creating an opportunity for the Government to manage public financial resources in compliance with its midterm fiscal objectives and policy priorities. The Medium-Term Expenditure Framework serves as a basis for the activities of elaborating the draft State Budget. In the upcoming years, the Government will attach more importance to the following priorities of the State Budget expenditures (priorities are the sectors to which the significant part of additional budgetary resources is allocated, or for the financial support of which loan resources are attracted):

- ensuring financial support for the reforms implemented for increasing the level of effectiveness, purposefulness and targeting of activities of the state bodies in certain areas of the social sector (particularly, education, healthcare, social protection), as well as in the field of public administration and for making the services they render to the public more accessible;

- ensuring financial support necessary for the vital activities of defence and national security structures for maintaining the territorial integrity of the Republic, stability in the region and balance of forces of the sides to the Karabakh conflict;
- implementation of programmes for restoration and development of infrastructures in certain sectors of economy (particularly, agriculture, water economy, road industry and energy).

Guided by the aforementioned priorities and given the lack of projected budgetary resources to be directed at the financing of the programmes implemented in compliance thereto, the Government of the Republic of Armenia will elaborate and at least 90 days before the start of the budget year submit the draft 2018 State Budget to the National Assembly for deliberation.

5. Fiscal Policy

Long-term fiscal principles. The Government of the Republic of Armenia has defined and publishes long-term objectives with respect to the main fiscal indicators (such as revenues, expenditures, deficit and public debts). This reflects the willingness of the Government of the Republic of Armenia to ensure the transparency of the fiscal policy and to apply long-term approach in that field. In particular, the Government of the Republic of Armenia undertakes to balance the need of making primary expenditures in priority directions with the need of ensuring sustainable fiscal policy to prevent accumulation of debts over time.

Acknowledging the need for sustainable fiscal policy, the Government of the Republic of Armenia has developed long-term fiscal principles to be guided by during the elaboration of the Medium-Term Expenditure Framework and the draft State Budget, as well as to assess the co-ordination of current policies and long-term objectives of the Government of the Republic of Armenia.

6. Forecasts on the main macro-economic indicators characterising the socio-economic situation in the Republic of Armenia for 2018

Economic growth. The forecasts on the economic situation in Armenia describe the actual environment under conditions of which the Government will operate. On the other hand, the fiscal policy of the Government affects the macro-economic environment, therefore macro-economic forecasts provide the opportunity to understand to what extent the fiscal policy adopted by the Government is in line with the development trends in other sectors of economy.

The second important justification for making economic forecasts is the fact that the situation of national economy has a great impact on the financial resources of the Government. High level of economic growth ensures larger revenues for businessmen, who, in their turn, ensure larger tax revenues for the Government. And on the contrary, low level of economic growth results in lower level of taxes and a greater demand for social support and assistance provided by the Government. Macro-economic forecasts also serve as a basis for the assessment of risks pertaining to the potential increase in the budget burden in the future.

Table 6.1 provides the description of the current economic situation as per main economic characteristics. The budget message of the Government of the Republic of Armenia describes the main factors and trends that determine the indicators specified in Table 6.1 and the prospects for economic development.

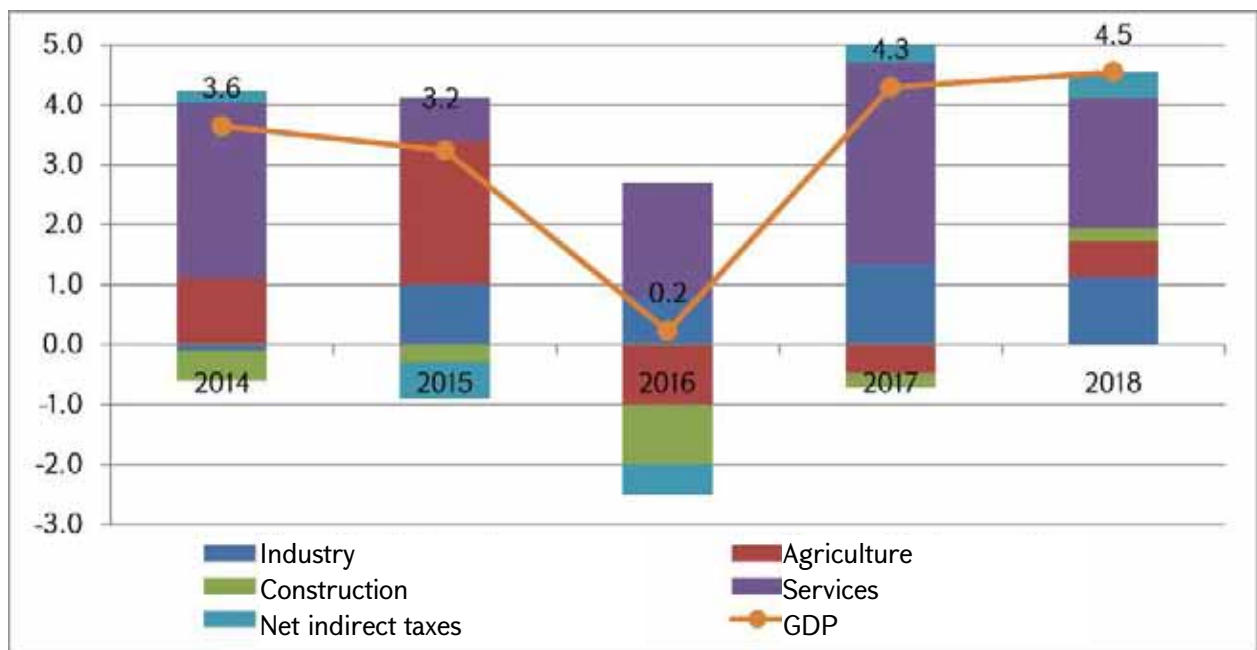
Table 6.1 Main economic criteria underlying the 2018 State Budget of the Republic of Armenia

Indicator	2014	2015	2016	2017	2018
	Actual	Actual	Actual	Forecast	Forecast
Economic growth (GDP change in %)	3.6	3.2	0.2	4.3	4.5
Level of investments (Investment/GDP %)	20.9	20.7	18.4	18.2	18.4
Level of consumption (Consumption/GDP %)	97.6	91.2	90.8	90.1	92.2
GDP deflator index	102.3	101.2	100.5	102.1	103.5
Average inflation rate	4.6	-0.1	-1.1	2.4	4.0
12-month inflation rate	3.0	3.7	-1.4	0.5	4.0
State Budget deficit/GDP %	-1.9	-4.8	-5.5	-3.6	-2.7
Current account/GDP	-7.6	-2.6	-2.3	-3.2	-3.6

The real aggregate supply in the country is measured by the total sum of added values generated in individual branches of economy. Its change as compared to the previous year is assessed through real GDP growth. Thus, this Section will describe the dynamics of changes in the added values generated in the main branches of economy in recent years and the expected further developments.

Economic growth in 2018 will be conditioned by both external developments, particularly the economic growth in Russia and the increase in international copper prices, as well as upon the growth in domestic demand. In 2018, advanced real GDP growth of 4.5% is forecast as compared to that of 2017, which will be mainly fostered by services and industry. The trends in economic growths of partner countries and in prices of raw products, as well as in economic policy have been taken into consideration in forecasts on economic growth.

Figure 6.2. Contributions to the real GDP growth recorded and forecast in individual branches of economy



Aggregate demand

Aggregate demand provides insight into the directions of revenue spending in the economy. The aggregate demand is composed of internal and external demands. The internal demand provides information on whether the generated revenues will be directed at the consumption, or invested in the economy. The mentioned is mainly characterised by the shares of consumption and investments in the total revenue generated by the public and private sectors, which are reflected in the Consumption/GDP and Investments/GDP indicators. The external demand provides information on the expenditures by our partner countries on our goods and services, which is characterised by the net export indicator.

Consumption

Forecast: Final consumption growth is forecast for 2017-2018. Real consumption growth of 5.7% is expected in 2017, which is conditioned by private consumption growth. Under the conditions of acceleration of economic growth rates and increase in the disposable income, real consumption growth of 6.8% is forecast for 2018. Moreover, final consumption will grow both in public and private sectors.

Capital investments

Forecast: In 2017-2018, investments growth is forecast as a result of the investment attraction policy implemented by the Government of the Republic of Armenia. In 2017, real investments growth of 3.5% is expected. In 2018, increase in intensification of investments both in public and private sectors is forecast; moreover, greater intensification of investments is expected in the private sector. As a result, real investments growth of around 6.3% is expected.

Net export¹

Forecast: In 2017, real export growth of 14.0% and real import growth of 16.9% are forecast. In 2018, real export growth of 8.0% is forecast conditioned by the external demand growth, and real import growth of around 7.8% conditioned by the disposable income growth.

In 2018, internal demand will be the driving force of aggregate demand — the share of consumption and investments in GDP will improve. In recent years, mainly external demand has contributed to aggregate demand growth through improvement of net export. In 2017-2018, aggregate demand will grow due to increase in internal demand, conditioned by private investments and private consumption growth; as a result, in 2018, the shares of consumption and investments in the GDP composition will grow by 1.7 and 0.3 percentage points, respectively.

¹ In this Section, real export and import growth indicators are presented.

Pricing variables

The level of prices in the economy is characterised by Consumer Price Index (CPI) or GDP deflator, whereas the changes therein show the trends in inflation or deflation witnessed in the economy. The CPI shows the price behaviour of certain amounts of goods (including those imported) and services in the consumer market of the Republic of Armenia, whereas the GDP deflator shows only the price behaviour of goods and services produced in our economy.

Forecast: In 2017, inflation will continue to expand until the end of the year, stepping in the confidence band; in the medium-term perspective it will stabilise around the inflation target.² Until the end of the year, GDP deflator growth of 2.1% is forecast, and in 2018, it will comprise around 3.5%, which will be conditioned by both the restoration of the CPI and the increase in prices of exported raw products.

Balance of payments

Economic flows into and out of the Republic are generated as a result of foreign economic activity of Armenia. These flows are reflected in the balance of payments of the country. The balance of payments consists of two major categories:

- current account (shows actual transactions with non-residents — import, export, transfers and factor revenues);
- capital and financial account (shows transactions of financial nature with non-residents (capital inflow and outflow)).

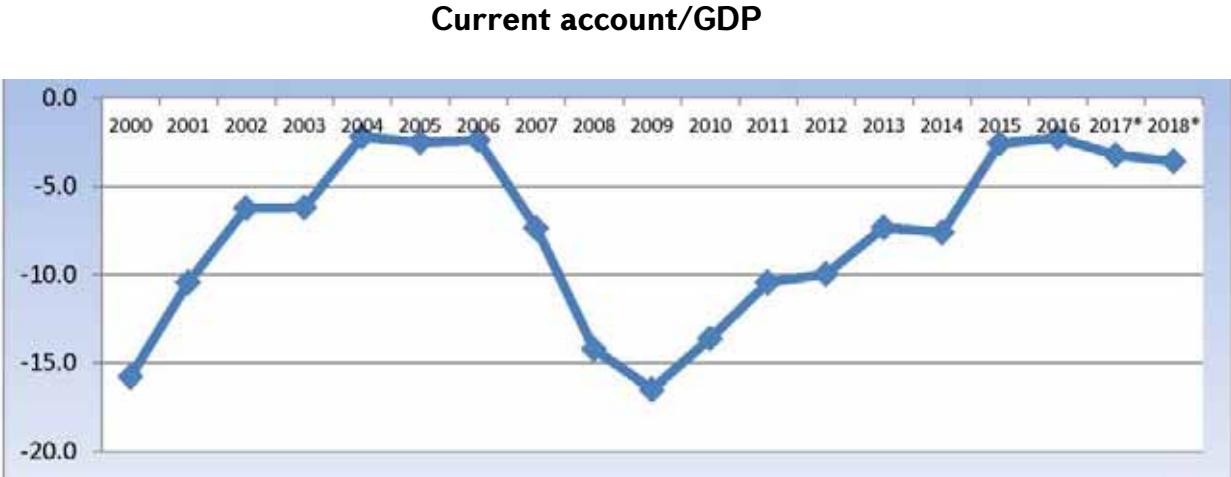
Current account balance against GDP is an important indicator in terms of external stability of the economy and analysis of relations with the external world. In relations with the external world, Armenia is considered to be a country with small and open

² See the Monetary Policy Program of the Central Bank of the Republic of Armenia for the second quarter of 2017.

economy, which means that the movement of economic flows into and out of the country is liberalised as much as possible. At the same time, high sensitivity with regard to global economic developments (prices of goods quoted in international stock exchanges, economic development of partner countries, global economic development trends, etc.) is inherent in small open economies.

Forecast: It is expected that in 2017 the current account deficit against GDP will estimate at around 3.2%, whereas in 2018 it will worsen, estimating at 3.6%. Moreover, it is forecast that in 2018 the growth rate of remittances will slow down, and the volumes will still go down the average level of remittances of the post-crisis years. Progressive growth in the export of goods and services will have a positive impact on the formation of balance of payments of the country; however the import growth of goods and services being close to the export growth will contribute to the worsening of the negative current account deficit.

Figure 6.3. Current account deficit/GDP



Foreign trade³

In 2016, as compared to the previous year, 7.2% growth in foreign trade turnover of the Republic of Armenia was recorded. There was an increase in the volumes of both

³ The statistics on foreign trade as per customs freight declarations (import: by CIF prices).

export and import expressed in dollar terms: the export increased by 20.6%, estimating at USD 1791.7 million, and the import increased by 1.1%, estimating at USD 3273.5 million.

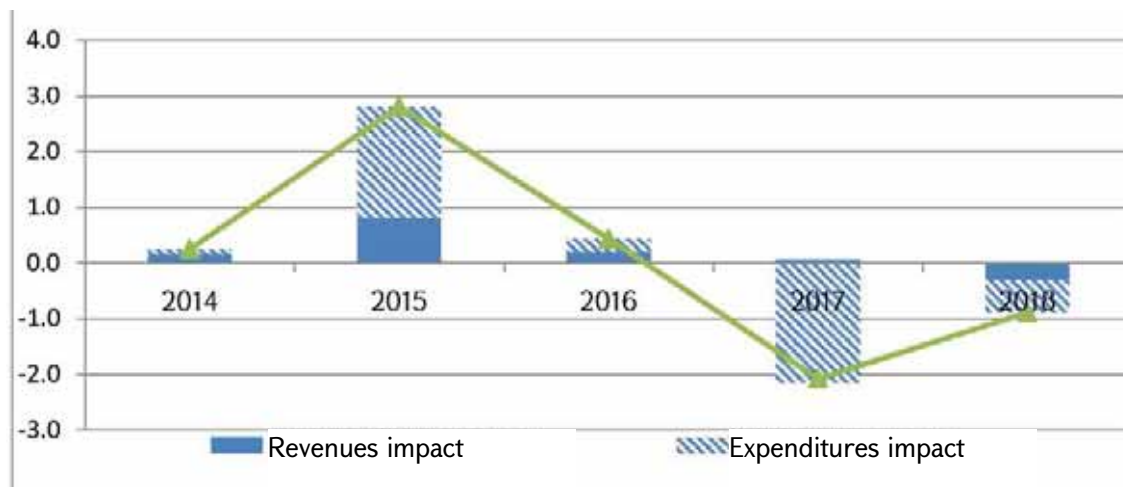
According to the results of the first eight months of 2017, foreign trade turnover, as compared to the previous year, increased by 24.4% (USD 3880.6 million). In January-August of the current year, there was an increase in the volumes of export by 21.7% and of import by 26% expressed in dollar terms. The negative foreign trade deficit with respect to goods (export and import calculated by FOB prices), increasing as compared to the previous year, estimated at around USD 643.7 million (during the seven months of the year), which was conditioned by the progressive import growth.

Fiscal sector

In recent years, despite the boosting nature of the fiscal policy, problems have been identified: thus, the implementation of the boosting fiscal policy has been accompanied by the increase in the deficit; however, conditioned by the need to promptly resist the external shocks, deviations from the "golden rule" have been witnessed. This implies that the deficit widening has not been accompanied by an equivalent increase in capital expenditures. Although incurrence of current expenditures boosts economic development in the short-term, more importance is attached to capital expenditures from the perspective of long-term economic growth.

Forecast: In 2017, until the end of the year, fiscal consolidation will continue, with manifestation of neutral impact of revenues and restraining impact of expenditures, which will continue in 2018 as well.

Figure 6.4. Fiscal impact⁴ in 2014-2018.



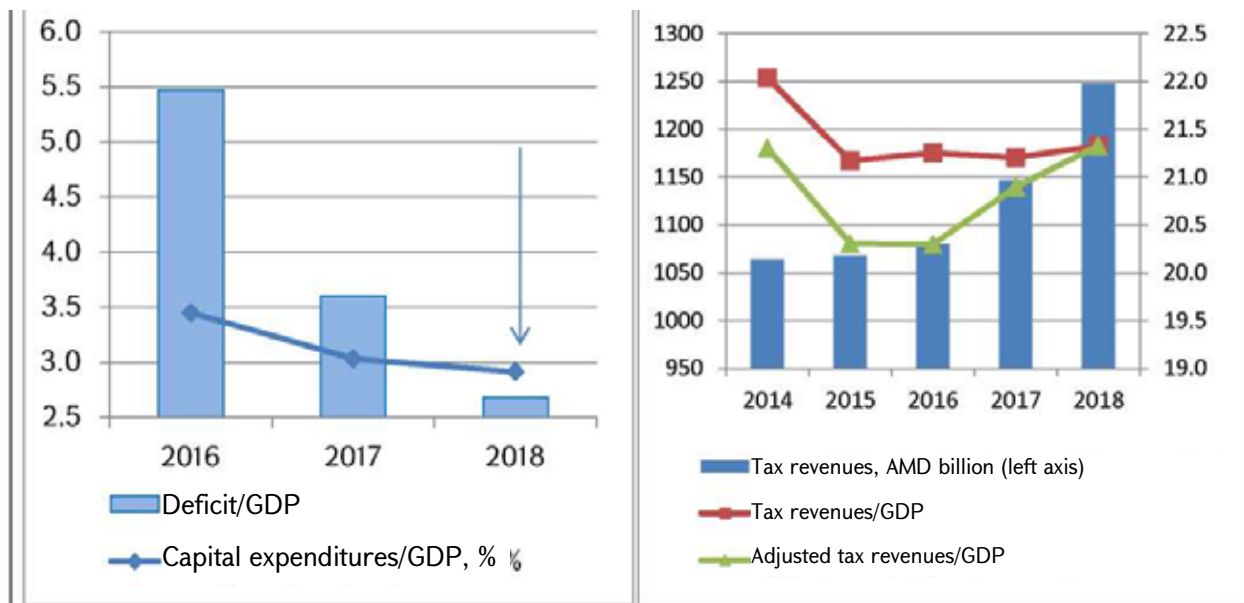
In the forecast horizon, the fiscal policy will be directed at the restoration of the "golden rule", pursuing the aim of creating bases for long-term growth, and at the same time ensuring debt sustainability.

Simultaneously, in the forecast horizon, tax revenues will also improve within the scope of the aforementioned policy. In 2017, the share of adjusted tax revenues in GDP (without VAT refund) will comprise 20.9%, which will improve, as compared to the previous year, by 0.6 percentage points. As a result, in 2018, the State Budget deficit of the Republic of Armenia against GDP will comprise 2.7%⁵, pursuing the aim of restoring "the golden rule".

⁴ For assessing the influence of fiscal policy on the overall demand, the fiscal impact indicator was applied, which is the total sum of the budget revenues impact and the expenditures impact. The calculations have been made, filtering the VAT refund from the revenue and expenditure portions, as that indicator has been missing since June 2017.

⁵ Point 7 of Article 5 of the Law of the Republic of Armenia "On public debt of the Republic of Armenia": "Where the public debt exceeds — as of 31 December of the given year — 50 per cent of the gross domestic product of the previous year of the Republic of Armenia, the State Budget deficit of the next year must not exceed 3 per cent of the average indicator of volumes of the gross domestic product of the last three years of the Republic of Armenia."

Figure 6.5. State Budget deficit and tax revenues

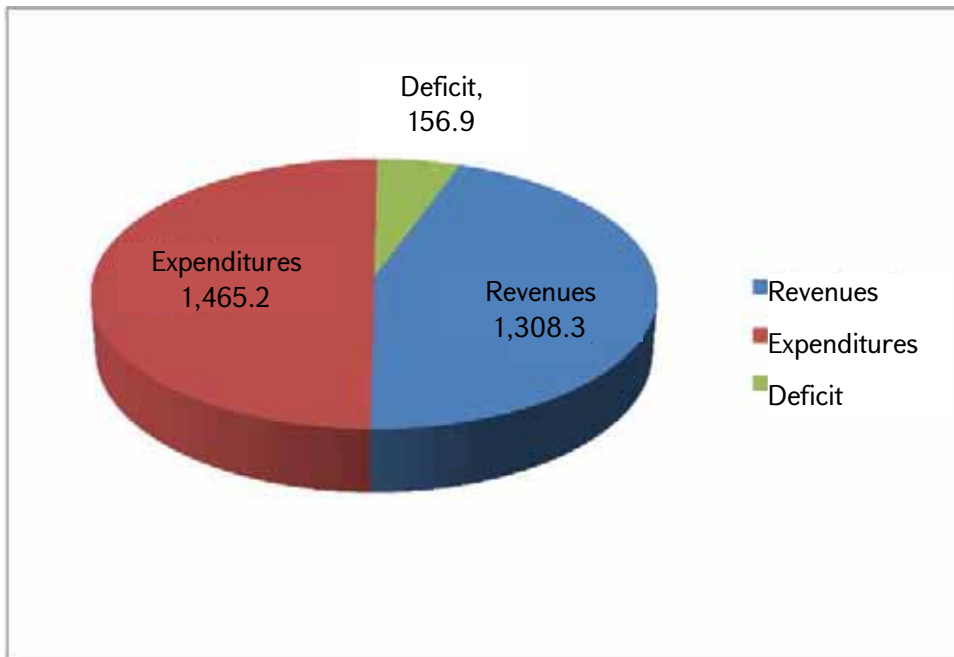


7. Budget framework for 2018

In 2018, the fiscal policy will be directed at the restoration of the "golden rule", pursuing the aim of creating bases for long-term growth, and at the same time ensuring debt sustainability.

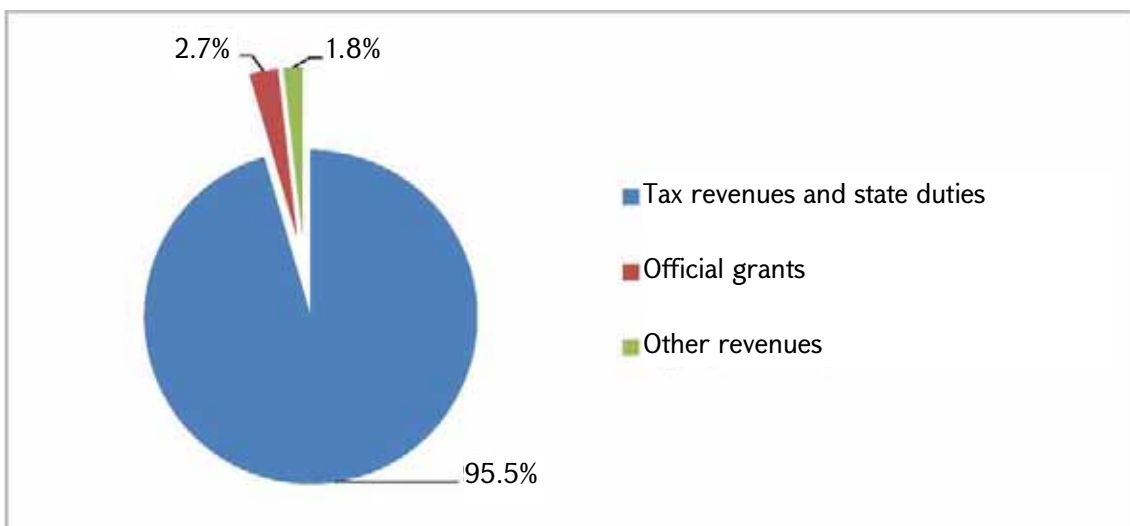
According to the draft Law of the Republic of Armenia "On the State Budget of the Republic of Armenia for 2018", the 2018 State Budget of the Republic of Armenia has been approved at: AMD 1,308.3 billion in revenues, AMD 1,465.2 billion in expenditures, and AMD 156.9 billion in the deficit.

Figure 7.1. Budget framework for 2018



Revenues in the amount of AMD 1,308.3 billion have been envisaged by the 2018 State Budget of the Republic of Armenia, of which AMD 1,248.5 billion in tax revenues and state duties. In the budget revenue composition envisaged by the draft 2018 State Budget of the Republic of Armenia, as in previous years, the receipts expected with respect to tax revenues and state duties comprise the predominant part.

Figure 7.2. Structure of budget revenues envisaged by the 2018 State Budget of the Republic of Armenia (percentage in the total)



The 2018 State Budget deficit of the Republic of Armenia has been planned in the amount of 2.7% of GDP and estimates at AMD 156.9 billion. Among the aforementioned sources of budget deficit financing, the share of internal sources in the total will estimate at 49.1% (around AMD 77.0 billion). The main part of internal sources of financing will be formed in 2018 from the receipts generated as a result of placement of state securities, the funds of the free balance of the 2018 State Budget of the Republic of Armenia at the beginning of the year, directed at the financing of expenditures, the funds of the stabilisation deposit account, as well as the net receipts from budgetary loans extended to economic operators (net of repayments from the extended loans).

The funds directed at the financing of the State Budget deficit at the expense of preferential loans to be received from external sources — international organisations (mainly the World Bank) and foreign states still constitute a considerable amount. The actual indicators for 2016 and the main forecast indicators for 2017 and 2018, characterising the public debt of the Republic of Armenia are presented in Table 7.3.

Table 7.3. Public debt of the Republic of Armenia for 2016-2018

(USD million, as of the end of the year)

Indicators	2016	2017	2018
Public debt: total	5,942.1	6,796.2	7,167.8
including:			
external debt:	4,805.6	5,536.3	5,805.5
of which: debt of the Central Bank	504.7	601.4	599.8
internal debt	1,136.5	1,259.9	1,362.4
Debt of the Government of the Republic of Armenia, AMD billion	5,437.4	6,194.8	6,568.1

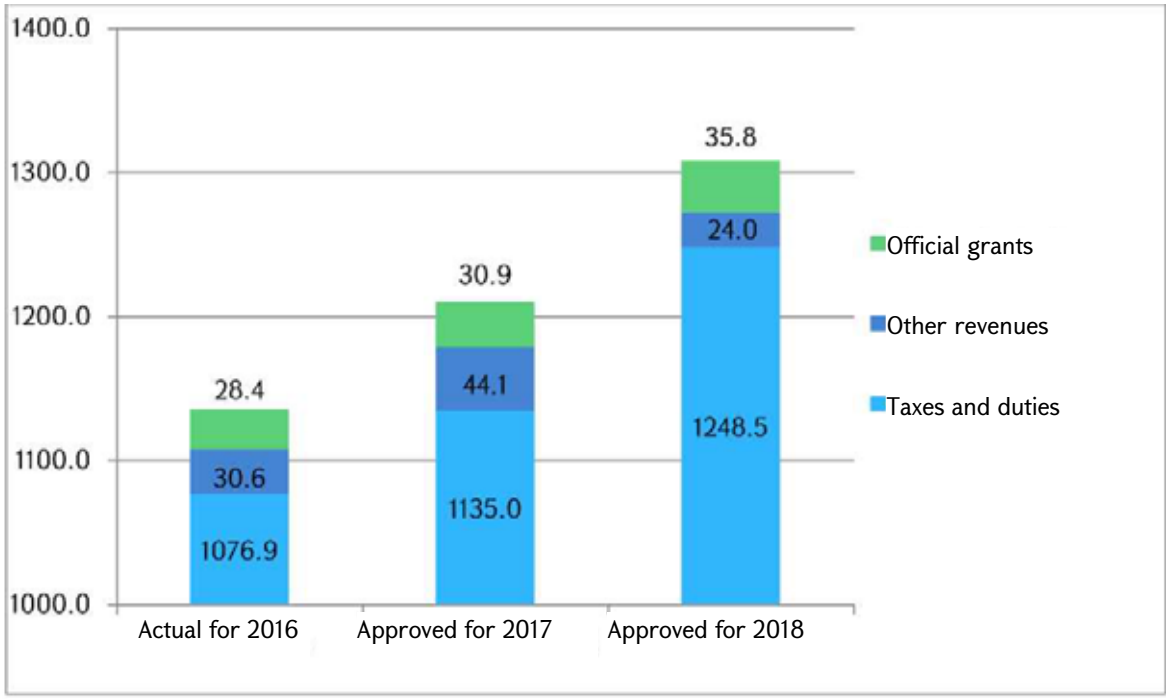
The predominant part of public debt as of year-ends of 2016-2018 falls to external debt (80.9%, 81.5% and 81.0%, respectively).

8. Revenues

In the draft Law of the Republic of Armenia "On the State Budget of the Republic of Armenia for 2018" (hereinafter referred to as "the Draft" in this Section), the total sum of revenues has been planned in the amount of AMD 1,308.3 billion, against the comparable sums of AMD 1,210.0 billion approved for 2017 and AMD 1,135.9 billion actually received in 2016.

In the composition of the planned revenues of the 2018 State Budget of the Republic of Armenia, taxes and state duties will constitute a large share — 95.4%, whereas the official grants and other revenues will ensure 2.7% and 1.8% of the annual budget revenues, respectively.

Figure 8.1. Structure of revenues of State Budgets of the Republic of Armenia for 2016-2018



It is expected that the revenues of the 2018 State Budget of the Republic of Armenia/GDP ratio will estimate at 22.4% against the expected ratio of 22.3% of 2017 and the actual ratio of 21.4% of 2016.

Table 8.2. Comparison of revenues of State Budgets of the Republic of Armenia for 2016-2018

Revenue Category	Comparable actual amount for 2016		Approved by the 2017 State Budget of the Republic of Armenia		Draft for 2018	
	AMD billion	in % to the total	AMD billion	in % to the total	AMD billion	in % to the total
Total, of which:	1,135.9	100.0%	1,210.0	100.0%	1,308.3	100.0%
1. Tax revenues and state duties ⁶	1,076.9	94.8%	1,135.0	93.8%	1,248.5	95.4%
2. Official grants	28.4	2.5%	30.9	2.6%	35.8	2.7%
3. Other revenues	30.6	2.7%	44.1	3.6%	24.0	1.8%

Tax revenues and state duties

The State Budget tax revenues and state duties for 2018 have been planned in the amount of AMD 1,248.5 billion against the expected receipts of AMD 1,130.4 for 2017 and the actual comparable receipts⁷ of AMD 1,028.2 billion for 2016, respectively. Up to 2016 and partially in 2017, VAT was refunded to exporters within the scope of the scheme included in the expenditure portion of budgets. Meanwhile, pursuant to the Government Finance Statistics Manual (GFS) issued by the International Monetary Fund, which suggests unified approaches to public finance accounting aimed at making the indicators that characterise the public finances of different countries comparable and increasing the level of its "readability" for the users of the specified information, the operations on revenue refund must be recognised as revenue

⁶ In this Section and hereinafter, the ratio of consolidated indicators approved by the draft Law of the Republic of Armenia "On the State Budget of the Republic of Armenia for 2017" to GDP underlying the calculations thereof will be introduced as percentage values approved for 2017.

⁷ For ensuring the comparability of actual/planned indicators of 2016-2018, tax revenues and state duties received from the State Budget of the Republic of Armenia for 2016 through the expenditure and revenue function (AMD 1,37 billion), as well as the actual receipts with respect to tax revenues and state duties of extra-budgetary accounts (AMD 1.4 billion) are not included in the composition of tax revenues and state duties of 2016. Tax revenues have also been reduced in the amounts with respect to the actual VAT refund of 2016 and the planned VAT refund of 2017, estimating at AMD 48.7 billion and AMD 16.6 billion, respectively.

reduction and not as expenditure. Within the scope of measures undertaken to expand the application of the GFS Manual, under the 2017 State Budget, already in the expenditure portion, funds in the total amount of around AMD 17 billion necessary only for the first quarter have been envisaged under VAT refund scheme to exporters. The first quarter of 2017 and the envisaged amount were necessary so that the State Revenue Committee adjunct to the Government of the Republic of Armenia could bring the accounting system in line with the approaches to organising VAT refund operations according to the GFS Manual. As a result, practically, since the second quarter of 2017, VAT refund payments to exporters have been carried out, by being formulated as a revenue reduction operation. VAT refund scheme is not included in the expenditure portion of the State Budget of the Republic of Armenia for 2018 at all, and it is envisaged that the State Budget in this regard will be in full conformity with the GFS Manual. It is obvious that this factor, in terms of comparability of indicators for 2016-2018, has essential significance in the period of switching to a new classification. And if we take that into consideration, the indicators comparable to AMD 1,248.5 billion of 2018 will turn out to be the following: AMD 1,130.4 billion for 2017, and AMD 1,028.2 billion for 2016 (08.3).

Table 8.3. Actual comparable indicators of 2016 and forecast comparable indicators of 2017-2018 of tax revenues and duties of the State Budget (AMD billion)

		2016 Actual	2017 Expected	Growth (%)
1	Tax revenues	1,076.9	1,147.0	6.2
2	VAT refund	48.7	16.6	-
3=1-2	Adjusted taxes	1,028.2	1,130.4	9.6

In fact, if the indicators of tax revenues and state duties for 2016-2018 are made comparable only through the specified approach, it will turn out that tax revenues and state duties/GDP ratio in the amount of 21.3% to the expected 20.9% of 2017 and the actual 20.2% of 2016 is planned for 2018. Under otherwise "equal conditions" and

taking into consideration the estimated macro forecasts, the tax revenues and duties of the State Budget for 2018 must have been estimated at 1,128.0 (1,117.7+10.3). Consequently, the additional AMD 20.5 billion is the exact value, in the amount whereof the State Budget revenues are expected to be replenished thanks to the administrative measures of the Government.

As in previous years, the indicator of tax revenues and state duties for 2018 is planned considering the following:

- ✓ forecasts of the indicators characterising the macro-economic environment;
- ✓ assessments with regard to the potential impact of the well-known amendments to the tax legislation entering into force in 2018;
- ✓ collection behaviour during previous years;
- ✓ additional receipts expected as a result of administrative measures.

Based on the forecasts with regard to the collection and the macro-economic environment of previous years, the tax revenues and state duties for 2018 are planned in the amount of AMD 1,217.7 billion.

The potential impact of the amendments to the tax legislation has been estimated at AMD 10.3 billion, and the remaining, *i.e.* around AMD 20.5 billion is expected to be ensured as a result of the administrative measures.

Official grants

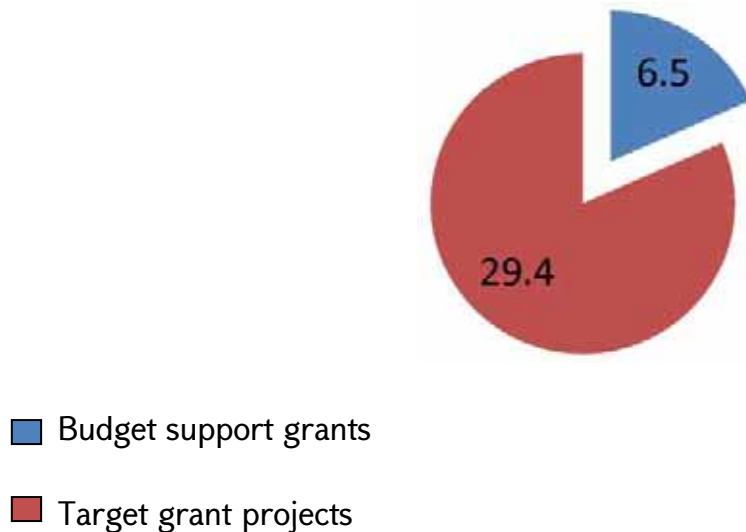
In 2018, it is expected to receive from foreign states and international organisations official grants in the amount of AMD 35,8 billion, in particular:

- ✓ general budget support of EUR 11.5 million or AMD 6.5 billion from official grant projects (non-linked grants) envisaged by the Republic of Armenia-European Union Action Plan within the scope of the European Neighbourhood;

- ✓ target support of USD 60.8 million or AMD 29.4 billion from official grant projects (linked grants).

Figure 8.4. Official grants

Official grants in 2018 (AMD billion)



Other revenues

Receipts with respect to other revenues for 2018 have been planned in the amount of AMD 24.0 billion against AMD 44.1 billion approved⁸ for 2017 and the actual⁹ AMD 30.6 billion of 2016. Under the MTEF, with respect to other revenues AMD 23.7 billion is envisaged for 2018.

The receipts forecast with respect to other revenues for 2018 are introduced below.

⁸ In this Section, the indicators with respect to other revenues of the 2017 State Budget of the Republic of Armenia approved by Annex 6 of Decision of the Government of the Republic of Armenia No 1313-N of 29 December 2016 have been considered as indicators approved for other revenues of the 2017 State Budget of the Republic of Armenia.

⁹ Net of the actual receipts of extra-budgetary accounts of the 2016 State Budget of the Republic of Armenia, specified in the second footnote of this Section, of which AMD 29.4 billion is accounted in the composition of other revenues.

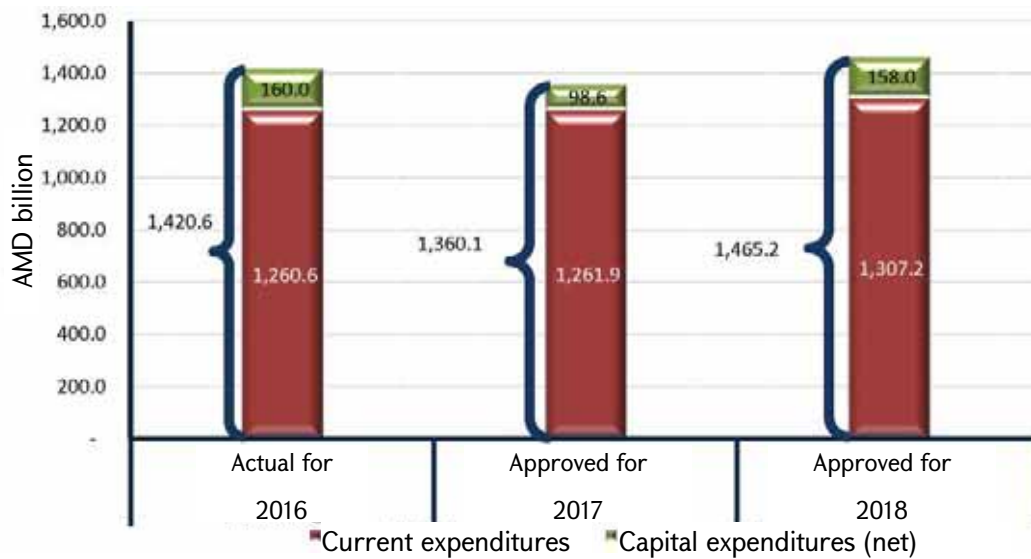
Table 8.5. Other revenues

Total other revenues (AMD billion)	24.0
interest payments received from temporarily free funds	1.6
dividends	0.8
payments for use of loans	11.7
revenues derived from lease of property	2.3
receipts from violations of law	2.1
cadastre payments	3.7
revenues generated from provision of goods and services	0.5
other non-tax revenues	1.3

9. Expenditures

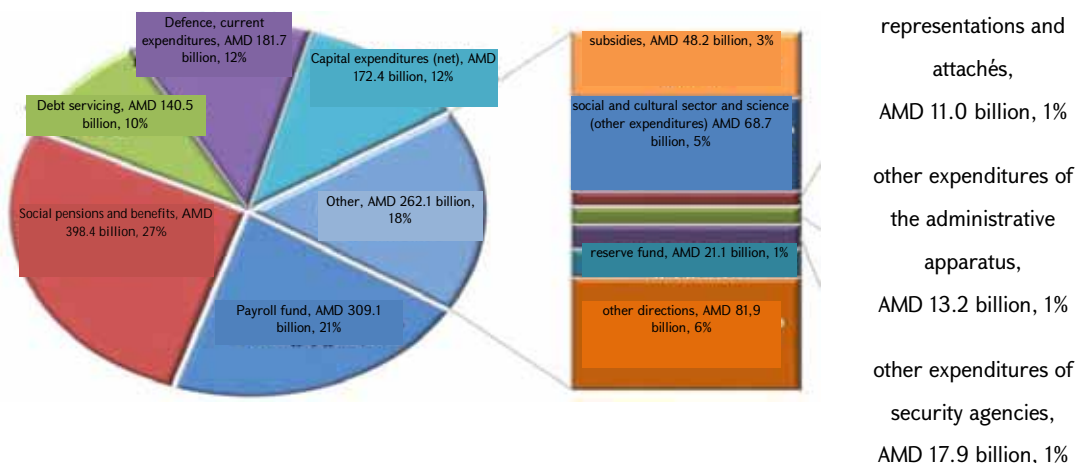
The volume of expenditures of the 2018 State Budget of the Republic of Armenia has been planned in the amount of around AMD 1,465.2 billion. 89.2% or AMD 1,307.2 billion of the total volume of expenditures falls on current expenditures, 10.8% or AMD 158.0 billion — on net expenditures with respect to non-financial assets. Moreover, the expenditures with respect to non-financial assets estimate at around AMD 173.2 billion or 11.8% of the total volume of expenditures, whereas receipts from the disposal of non-financial assets — AMD 15.2 billion or 1.0% of the total volume of expenditures. The expenditure portion of the 2018 State Budget of the Republic of Armenia, as compared to the approved level of the 2017 State Budget of the Republic of Armenia, has increased by around AMD 105.1 billion.

Figure 9.1. Expenditures of State Budgets of the Republic of Armenia for 2016-2018, as per economic classification



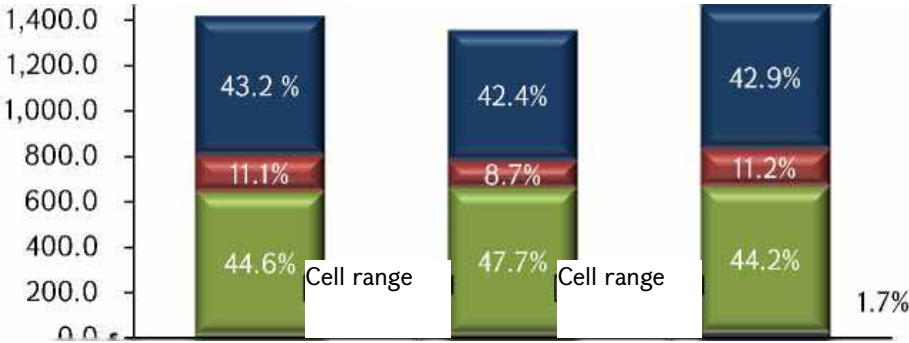
The volumes, composition and structure of budget expenditures have been formed based on the macro-economic forecasts for 2018, the forecast indicators of prices and tariffs, the necessity of avoiding new budget debts disrupting the normal course of economic relations in the Republic, and budget norms developed with respect to separate types of expenditures.

Figure 9.2. State Budget of the Republic of Armenia for 2018, by main directions of expenditures



In the total volume of budget expenditures, the share of expenditures in the social sector (education, healthcare, social protection) constitutes 42.0%, that of defence, protection of public order and national security, and detention facilities — 22.2%, branches of economy — 12.1%, servicing of public debt — 9.6%, provision to the community budgets of subsidies for financial equalisation and other subsidies from the State Budget of the Republic of Armenia — 3.4%, formation of the reserve fund of the Government of the Republic of Armenia — 1.4%.

Figure 9.3. Expenditures of the State Budget for 2016-2018, as per aggregated groups of services



AMD billion	2016 Actual	2017 Approved	2018 Approved
TOTAL EXPENDITURES, of which	1,420.6	1,360.1	1,465.2
1. General purpose state services	613.3	577.3	629.2
2. Economic services	158.3	117.8	164.0
3. Social services	633.8	648.7	646.9
4. Reserve fund of the Government of the Republic of Armenia	15.1	16.3	25.1

According to the presented classification, social services have the largest share in expenditures, constituting 44.6%, 47.7% and 44.2% for 2016-2018, respectively.

The share of general purpose state services constitutes 43.2%, 42.4% and 42.9% for 2016-2018, respectively.

Figure 9.4. Expenditures with respect to general purpose state services

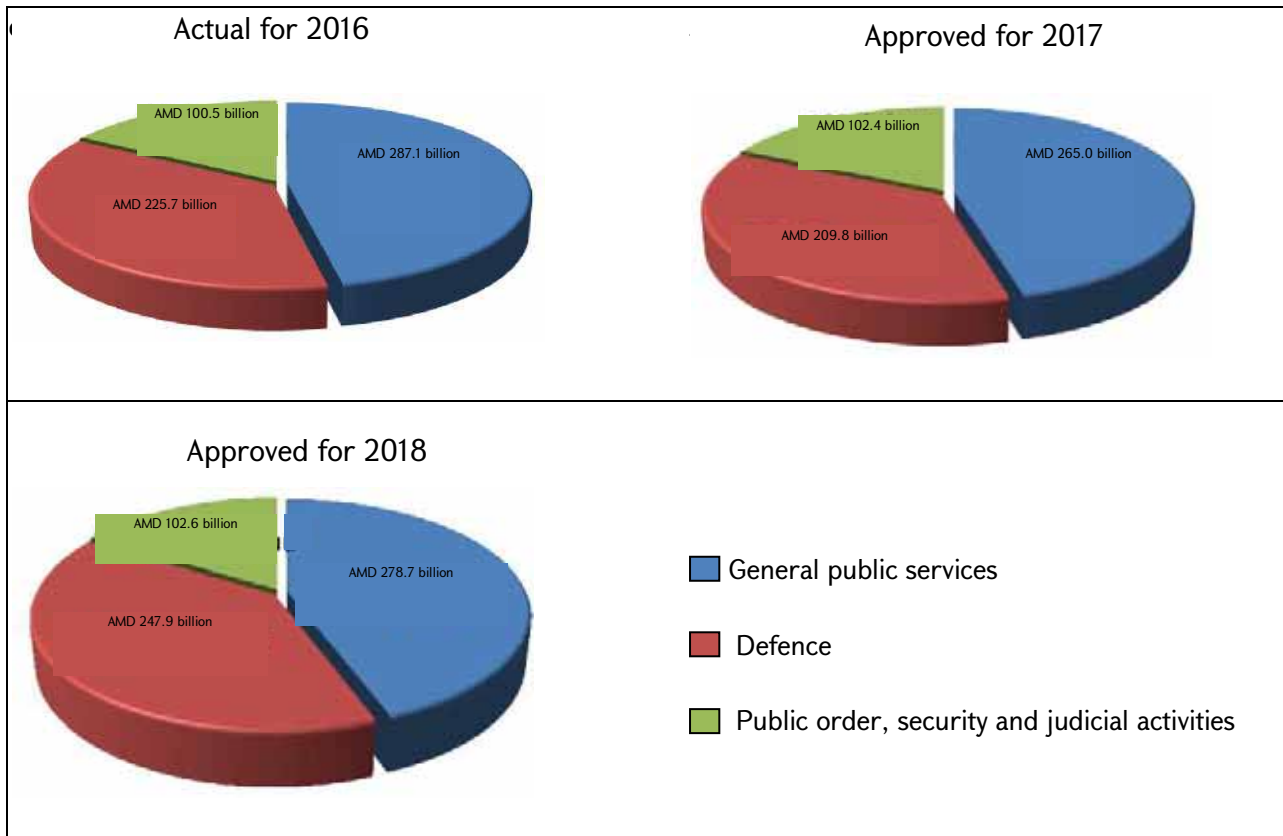
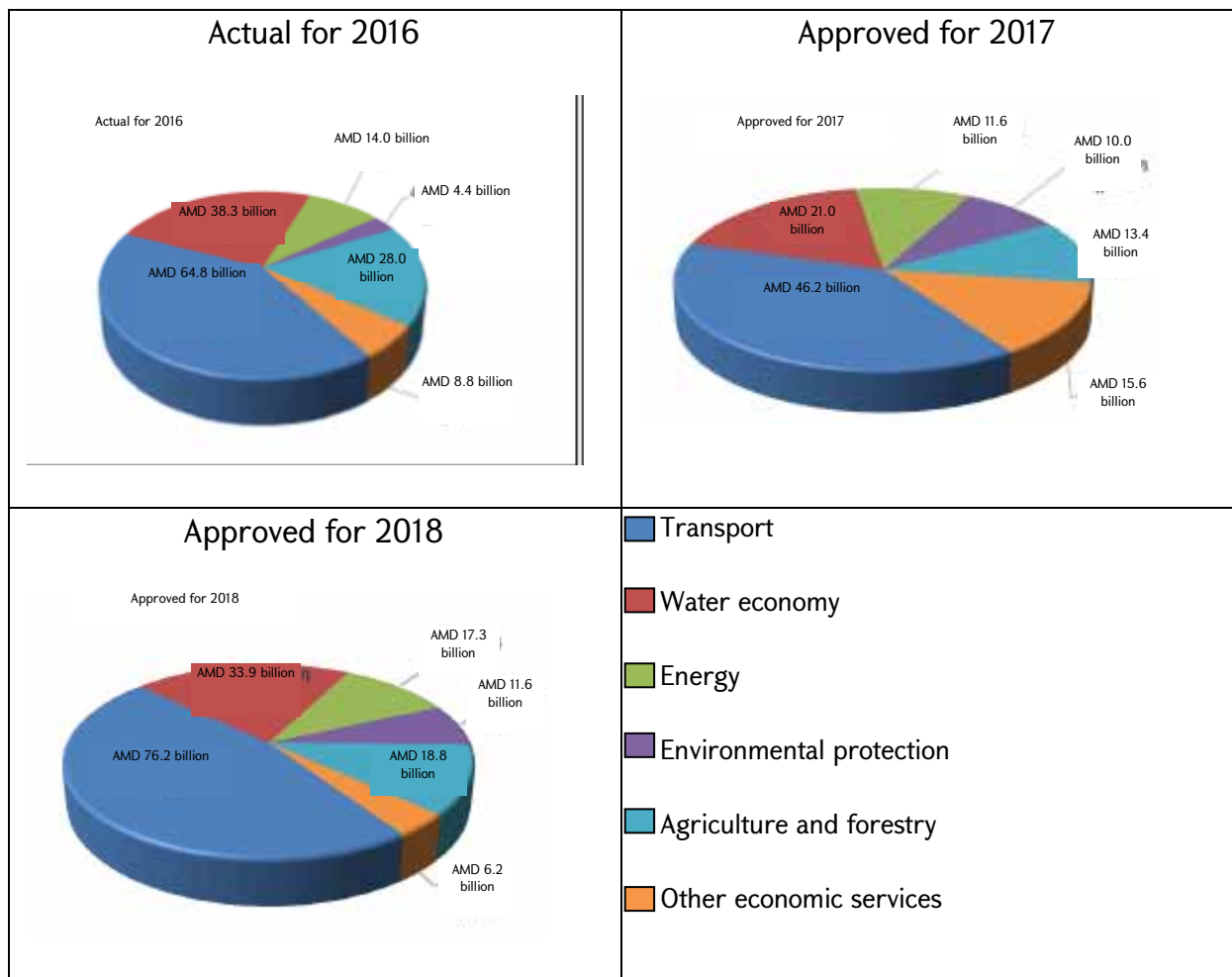


Table 9.5. Main directions of expenditures with respect to general public services

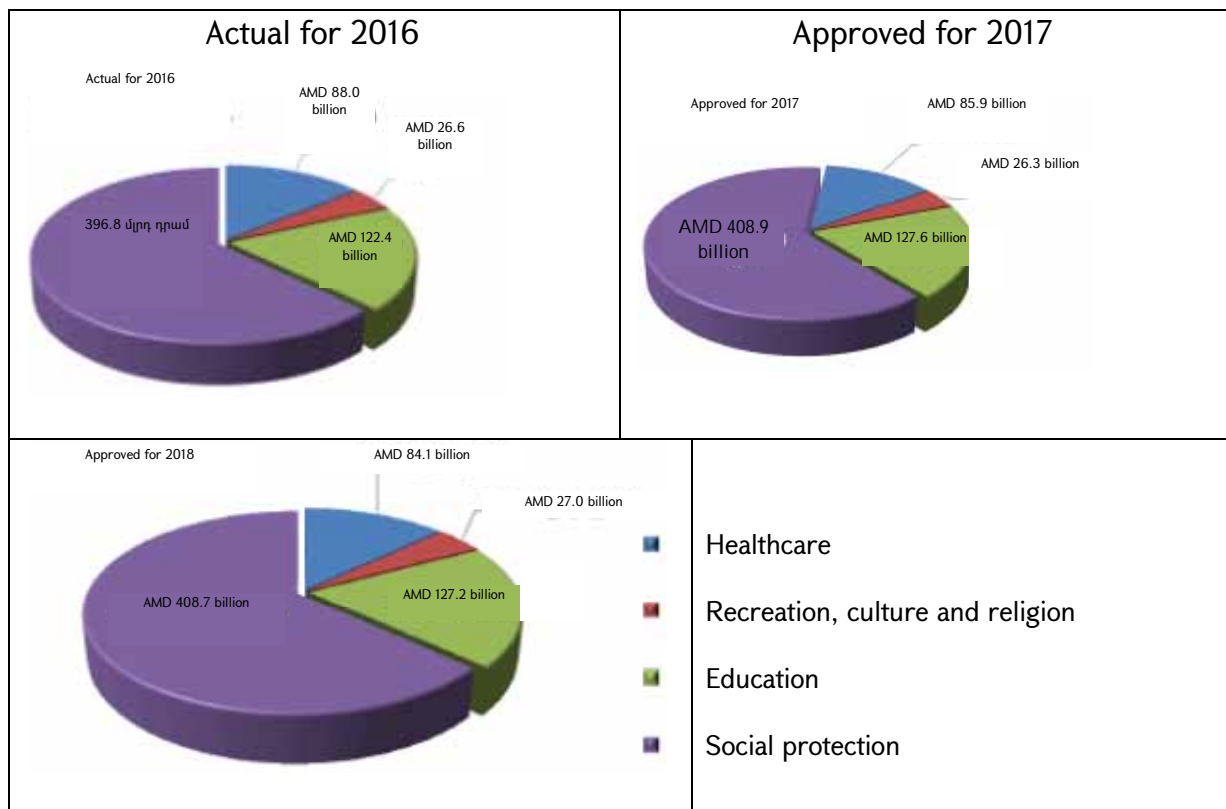
	2016 Actual	2017 Approved	2018 Draft
General public services	287.1	265.0	274.7
1. Servicing of public debt			
AMD billion	98.3	120.3	140.5
% in the total expenditures of the Section	34.2%	45.4%	51.1%
2. Support to local self-government bodies			
AMD billion	49.4	49.0	49.2
% in the total expenditures of the Section	17.2%	18.5%	17.9%
3. Remaining expenditures	139.5	95.7	85.0

Figure 9.6. Expenditures with respect to economic services



In 2018, the expenditures with respect to economic services are distributed as follows: the expenditures directed at the transport sector will estimate at AMD 76.2 billion, to water economy — AMD 33.9 billion, sectors of agriculture and energy — AMD 18.8 billion and AMD 17.3 billion, respectively.

Figure 9.7. Expenditures with respect to social services



In 2018, more than 44% of total expenditures fall on the social sector. Out of the specified expenditures, AMD 408.7 billion falls on the social protection, AMD 127.2 billion — on education, AMD 84.1 billion — on healthcare, and AMD 27 billion — on recreation, culture and religion.

It is noteworthy that expenditure frameworks are mainly arranged in the 2018 State Budget of the Republic of Armenia in compliance with the principles of programme budgeting. At the same time, for the purpose of submitting the 2019 State Budget to the National Assembly, fully classified by programmes, and of ensuring the management of risks associated with its execution in the transition period, the final stage of preparatory activities is currently underway, which will create prerequisites for ensuring the sustainability of the existing state budget execution system and, on the other hand, for supporting the development of management, monitoring, accountability and supervision systems.

In economy, the key element for justifying the need for expenditures with respect to state non-financial assets is the definition of the sectors that require state intervention and the selection between private and public investments conditioned by that, which in its turn serves as a basis for determining the volumes and priority directions of state investment projects.

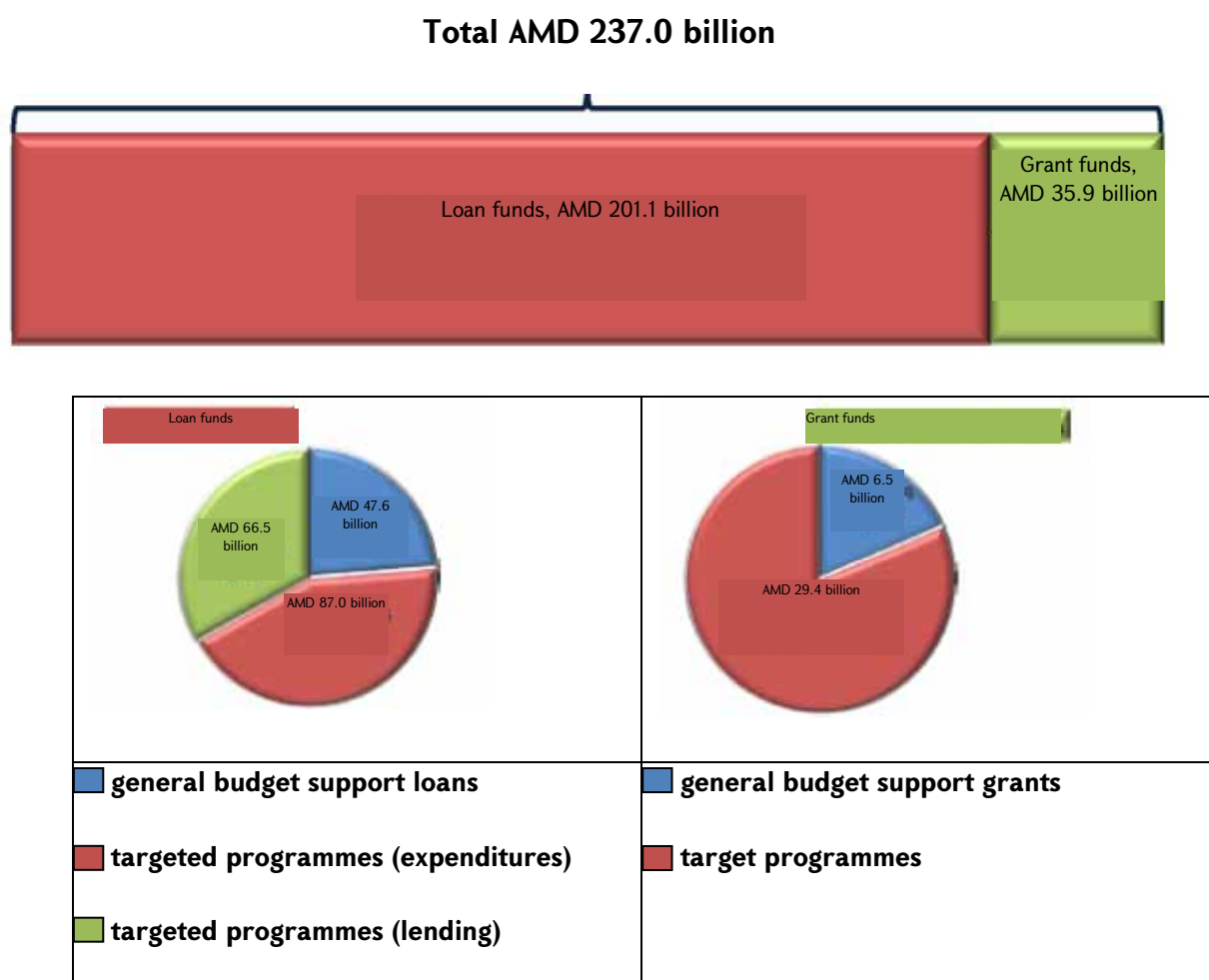
Figure 9.8. Capital expenditures for 2016-2018, by sources of financing



- programmes implemented at the expense of external resources (including co-financing by the Government of the Republic of Armenia);
- programmes implemented at the expense of internal resources.

For the purpose of financing the expenditures with respect to state non-financial assets, allocations of AMD 61.3 billion have been envisaged by the 2018 State Budget of the Republic of Armenia (without the programmes implemented at the expense of target loan and grant funds received from external resources).

Figure 9.9. External sources of financing of the State Budget



Budget expenditures, by the directions of performing the main functions of state bodies, are classified into 11 categories.

Table 9.10. Expenditures of the 2018 State Budget of the Republic of Armenia, by the main categories of functional classification of budget expenditures, AMD billion

	2016	2017	2018
Total expenditures	1,449.1	1,360.1	1,465.2
General public services	292.1	265.0	278.7
Defence	225.9	209.8	247.9
Public order, security and judicial activities	120.3	102.4	102.6

Economic relations	131.1	93.6	133.6
Environmental protection	4.5	10.0	11.6
Housing construction and communal services	25.6	14.3	18.8
Healthcare	88.6	85.9	84.1
Recreation, culture and religion	26.6	26.3	27.0
Education	122.4	127.6	127.2
Social protection	396.8	408.9	408.7
Reserve funds not classified under the main categories	15.1	16.3	25.1

In particular, the predominant part of expenditures has fallen on the following sectors classified under the aggregated categories introduced below:

- expenditures with respect to general public services have been planned to estimate at AMD 278.7 billion (19.0% of the total sum of the State Budget expenditures);
- expenditures with respect to defence, public order, security and the system of judicial activities — AMD 236.2 billion (16,1%).
- expenditures in the social sector (social protection, healthcare, education, recreation, culture and religion) — AMD 646.9 billion, (44,2%);
- expenditures in the sector of economy (economic relations, housing construction and communal services) — AMD 30.4 billion, (2.1%);
- reserve funds not classified under the main categories — AMD 25.1 billion, (1.7%).

10. State Budget deficit and public debt

Budget deficit

Budget deficit and surplus are the criteria for defining the relation between the budget revenues and expenditures. Deficit is the amount by which expenditures exceed revenues, and surplus shows the amount by which the revenues exceed the expenditures. According to law, the permissible amount of deficit may not exceed 7.5% of GDP of the upcoming year specified in the budget message of the Government.

The funds that are used by the Government to cover its expenditures, *i.e.*, the State Budget revenues, are mainly generated from taxes. During the years following the independence of our country, the commitments assumed by the Government exceeded the revenues, which required the Government to borrow resources for the performance of its commitments, thus resulting in generation of public debt. If own and borrowed resources are not sufficient to cover the planned expenditures, reduction in the State Budget expenditures will be required. As it has already been mentioned, the amount of deficit of the 2018 State Budget of the Republic of Armenia is planned in the amount of AMD 156.9 billion. The deficit is expected to be financed at the expense of the net receipts of internal and external resources (net receipts are the difference between the total sum of receipts of funds attracted for the purpose of financing of the deficit and the total sum of the provision or repayment of borrowed funds), in the amount of AMD 77.0 billion and AMD 79.9 billion, respectively.

The sources of financing the deficit are classified into funds attracted from internal and external sources in the form of borrowed funds and financial assets. Borrowed funds are attracted by way of issuing state securities and receipt of loans and borrowings (which are consequently subject to repayment in the future). Funds from financial assets are attracted by way of realising the already acquired stocks belonging to the State by the right of ownership and other equity participation, as well as commitments acquired from economic and other operators for loans and borrowings extended from the State Budget thereto.

The total sum of borrowed net funds attracted from internal sources for the financing of the deficit of the 2018 State Budget of the Republic of Armenia is planned in the amount of AMD 46.0 billion; moreover, the attraction of receipts of borrowed funds is expected to be fully ensured from the issuance of state securities. Net receipts from financial assets for 2018 are planned in the amount of around AMD 31.0 billion; moreover, at the expense of the funds of the free balance at the beginning of the year — AMD 31.9 billion, at the expense of the funds of stabilisation deposit account — AMD 39.9 billion, and net receipts with respect to budgetary loans and borrowings extended to economic and other operators — AMD (40.8) billion.

Budgetary loans

The total volume of net lending of the 2018 State Budget of the Republic of Armenia is planned in the amount of around AMD 91.5 billion. The specified amount is the difference between the total sum of budgetary loans to be extended from the State Budget of the Republic of Armenia and the total sum of receipts to be received from repayments of budgetary loans extended previously.

The total sum of loans to be extended from the 2018 State Budget of the Republic of Armenia is envisaged by the Draft to be defined in the amount of AMD 122.9 billion. In particular:

- (a) for extending budgetary loans within the scope of external economic assistance provided by the Republic of Armenia, allocations in the amount of AMD 51.4 billion have been set aside for the purpose of fully directing them at the extension of budgetary loans to the Republic of Artsakh;
- (b) budgetary loans of around AMD 71.5 billion are expected to be extended within the scope of the Infrastructure and Rural Finance Support Programme implemented with the support of the International Fund for Agricultural Development, Electricity Supply Reliability Project implemented with the support

of the International Bank for Reconstruction and Development, prolongation of the projected time frame for operation of the second power unit of the Armenian Nuclear Power Plant (ANPP) implemented with the support of the Russian Federation, additional financing of Electricity Supply Reliability Project implemented with the support of the International Bank for Reconstruction and Development, and Power Sector Financial Recovery Program implemented with the support of the International Bank for Reconstruction and Development.

At the same time, receipts into the 2018 State Budget of the Republic of Armenia have been envisaged from Georgia, as well as a number of economic operators — from the payments of around AMD 31.4 billion to be made to the State Budget with respect to the repayments of budgetary loans extended by the State thereto in previous years.

Public debt of the Republic of Armenia

According to the forecasts underlying the 2018 State Budget of the Republic of Armenia, public debt of the Republic of Armenia will, as of 31 December 2017, constitute AMD 3,283 billion (USD 6,796 million) or 60.7% of GDP, whereas at the end of 2018 it will constitute AMD 3,463 billion (USD 7,168 million) or 59.2% of GDP.

Table 10.1. Public debt of the Republic of Armenia

	As of 31 December 2016	As of 31 December 2017	As of 31 December 2018
AMD billion			
Public debt of the Republic of Armenia	2,876	3,283	3,463
of which:			
external public debt	2,326	2,674	2,804
<i>of which: debt of the Central Bank</i>	244	290	290
internal public debt	550	609	658
USD million			
Public debt of the Republic of Armenia	5,942	6,796	7,168
of which:			
external public debt	4,806	5,536	5,805
<i>of which: debt of the Central Bank</i>	505	601	600
internal public debt	1,137	1,260	1,362
in percentage to GDP			
Public debt of the Republic of Armenia	56.6	60.7	59.2
of which:			
external public debt	45.8	49.4	47.9
<i>of which: debt of the Central Bank</i>	4.8	5.4	5.0
internal public debt	10.8	11.3	11.2

The internal public debt for 2017 and 2018 has been calculated at the exchange rate of USD 1=AMD 483.06 (average exchange rate formed in the currency market as of 1 November 2017 (source: the Central Bank of the Republic of Armenia)).

Table 10.2. Servicing of external public debt of the Republic of Armenia

	2017 (forecast), USD million	2018 (forecast), USD million
Receipt of loans with respect to external public debt of the Republic of Armenia	756	465
<i>of which: with respect to debt of the Central Bank</i>	<i>114</i>	<i>54</i>
Repayment of the principal amount with respect to external public debt of the Republic of Armenia	143	200
<i>of which: with respect to debt of the Central Bank</i>	<i>42</i>	<i>56</i>
Interest payment with respect to external public debt of the Republic of Armenia	144	174
<i>of which: with respect to debt of the Central Bank</i>	<i>9</i>	<i>11</i>

Government debt

According to the forecasts underlying the 2018 State Budget of the Republic of Armenia, the debt of the Government of the Republic of Armenia will, as of 31 December 2018, constitute AMD 3,173 billion (USD 6,568 million) and will increase by AMD 180 billion (USD 373 million) as compared to the end of 2017.

Table 10.3. Debt of the Government of the Republic of Armenia

	As of 31 December 2016	As of 31 December 2017	As of 31 December 2018
Debt of the Government of the Republic of Armenia, AMD billion	2,631	2,992	3,173
Debt of the Government of the Republic of Armenia, USD million	5,437	6,195	6,568
Debt of the Government of the Republic of Armenia, % to GDP	51.8	55.3	54.2

In 2017-2018, it is envisaged to increase the share of state treasury bonds expressed in AMD within the structure of the debt of the Government of the Republic of Armenia, which will, according to forecasts, constitute 18.4% and 18.9%, respectively.

Table 10.4. Structure of the debt of the Government of the Republic of Armenia

	As of 31 December 2016	As of 31 December 2017	As of 31 December 2018
Structure by residence, AMD billion*			
internal debt	550	609	658
external debt:	2,081	2,384	2,515
Structure by set of instruments, AMD billion			
external loans and borrowings	1,636	1,951	2,080
government treasury bonds	508	551	601
foreign currency government bonds	484	483	483
external safeguards	-	3	4
internal safeguards	3	4	4
Structure of currency, AMD billion			
Debt expressed in AMD	508	551	601
Debt expressed in foreign currency	2,123	2,442	2,572
Structure by interest type, AMD billion			
Floating interest rate	328	431	511
Fixed interest rate	2,303	2,562	2,662

* Debt balance with respect to government treasury bonds and foreign currency government bonds for 2017 and 2018 has been distributed by residence, based on the actual shares formed as of 31 October 2017.

11. Monitoring and oversight of the State Budget execution

Monitoring of the State Budget execution of the current year is conducted together with the development of the State Budget of the upcoming financial year. The assessment and analysis of the State Budget execution are essential for the development of the State Budget of the coming year, as the trends of the current year in terms of revenues and expenditures are revealed. Thus, following the approval of the State Budget, monthly, quarterly, semi-annual and annual budget execution reports are prepared during the budget year.

The Government bears responsibility for the State Budget execution, the local self-government bodies bear responsibility for the community budget execution. The Ministry of Finance of the Republic of Armenia develops the main directions of public financial management, which also include the budget execution process. The State Budget of the Republic of Armenia is executed by the Treasury which is a structural subdivision under the Staff of the Ministry of Finance of the Republic of Armenia. The Treasury performs operations with public money, carries out servicing of the treasury accounts of spending units, keeps accounting records and prepares budget execution reports. The Treasury receives public resources, informs the main spending units about the availability of resources and makes the allocations envisaged by the State Budget of the given year.

The Government of the Republic of Armenia submits the annual State Budget execution report of each year to the National Assembly before 1 May of the year following the reporting year. The annual State Budget execution report is discussed and approved by the National Assembly upon the availability of the opinion of the Control Chamber before the second Wednesday of June of the year following the reporting year. The discussion and approval process of the annual report is similar to that of the approval of State Budget. Where the annual State Budget execution report is not adopted, the Government may raise the issue of its confidence at the National Assembly. Where a decision on seeking non-confidence in the Government is not adopted, the submitted report is deemed to be approved.

12. Tables, figures

Table 3.1 Actual indicators for the consolidated budget of the Republic of Armenia for 2012-2016 (AMD billion)

Table 3.2 Actual indicators of own revenues of community budgets of the Republic of Armenia for 2012-2016 (AMD billion)

Table 6.1 Main economic criteria underlying the 2018 State Budget of the Republic of Armenia

Figure 6.2. Contributions to the real GDP growth recorded and forecast in individual branches of economy

Figure 6.3. Current account deficit/GDP

Figure 6.4. Fiscal impact in 2014-2018

Figure 6.5. State Budget deficit and tax revenues

Figure 7.1. Budget framework for 2018

Figure 7.2. Structure of budget revenues envisaged by the 2018 State Budget of the Republic of Armenia (percentage in the total)

Table 7.3. Public debt of the Republic of Armenia for 2016-2018 (USD million, as of the end of the year)

Figure 8.1. Structure of revenues of State Budgets of the Republic of Armenia for 2016-2018

Table 8.2. Comparison of revenues of State Budgets of the Republic of Armenia for 2016-2018

Table 8.3. Actual comparable indicators of 2016 and forecast comparable indicators of 2017-2018 of tax revenues and duties of the State Budget (AMD billion)

Figure 8.4. Official grants

Table 8.5. Other revenues

Figure 9.1. Expenditures of State Budgets of the Republic of Armenia for 2016-2018, as per economic classification

Figure 9.2. State Budget of the Republic of Armenia for 2018, by main directions of expenditures

Figure 9.3. Expenditures of the State Budget for 2016-2018, as per aggregated groups of services

Figure 9.4. Expenditures with respect to general purpose state services

Table 9.5. Main directions of expenditures with respect to general public services

Figure 9.6. Expenditures with respect to economic services

Figure 9.7. Expenditures with respect to social services

Figure 9.8. Capital expenditures for 2016-2018, by sources of financing

Figure 9.9. External sources of financing of the State Budget

Table 9.10. Expenditures of the 2018 State Budget of the Republic of Armenia, by the main categories of functional classification of budget expenditures, AMD billion

Table 10.1. Public debt of the Republic of Armenia

Table 10.2. Servicing of external public debt of the Republic of Armenia

Table 10.3. Debt of the Government of the Republic of Armenia

Table 10.4. Structure of the debt of the Government of the Republic of Armenia