Appendix N 1

To the RA Government Decree N 1171-N

Dated on July 12, 2021

**2022-2024 GOVERNMENT DEBT MANAGEMENT STRATEGY OF THE REPUBLIC OF ARMENIA**

# Appendix

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# Introduction

The RA Government debt management strategic program presents the strategy to raise the borrowings necessary for financing the RA State budget deficit and manage the risks of the RA Government debt portfolio. The strategy is a three-year program, which is reviewed and published annually, contributing to ensuring the predictable and transparent management of the Government debt.

The RA Government debt management strategy clarifies the borrowing policy, including the benchmark indicators for the Government debt management, identifies and assesses the risks associated with the Government debt management, as well as outlines the principles, targets and actions to be implemented, under which the Government will not threaten the fiscal sustainability.

The debt management has an essential role within the public finance management process, where, considering the resource constraints, the Government borrows in order to implement a fiscal policy contributing to the long term and sustainable economic growth.

For the formation of an acceptable RA Government debt portfolio, the RA Ministry of Finance carries out cost-at-risks analyses, applying also the approaches developed by the leading international financial organizations and based on the best international practices. The analyses allow assessing the costs and risks indicators of the RA Government debt portfolio and the impacts of the possible shocks on these indicators. The RA Government debt management strategy presents and analyses the market risks of the RA Government debt portfolio: such as exchange rate and interest rate risks, as well as refinancing risk, and non-market operational risk. The RA Government debt management constrains, such as the domestic market capacity or the possibilities for the utilization of the external loans, have also been taken into consideration during the development of the strategy.

Generally, the RA Government debt management strategy presents the preferable option out of the possible costs-at-risks trade-offs, the selection of which is based on meeting financial needs with acceptable costs.

# Objectives and scope of the RA Government debt management strategy

The RA Government debt management strategy is developed in accordance with the provisions of the RA Law “On Public Debt” approved in 2008.

According to the RA Law “On Public Debt”, the main objective of the RA Government debt management is the assurance of the permanent possibility for meeting the financial needs of the Government, together with the reduction of the debt service amount in the long-term. Since the second part of the main objective of the RA Government debt management also assumes to assess the potential risks that may affect the reduction of the debt service amount in the long-term, then the debt management objective can be reformulated as determining the appropriate debt portfolio structure that minimizes the funding cost to the Government taking into consideration the financial risks.

The RA Law “On Public Debt” also defines the goals for raising public debt, such as: financing the State budget deficit and ensuring current liquidity, maintaining and developing Government domestic debt market.

The strategy covers only the RA Government debt (including the guarantees provided by the RA Government), and the analyses performed do not include the external debt of the CBA. The latter is taken on behalf and by the CBA. Moreover, in accordance with the RA Law “On Public Debt”, the objectives of the CBA debt management are defined by the RA Law “On the Central Bank of RA”.

# Developments observed in the RA Government debt management from the start of 2020

At the end of 2020 the RA Government debt/GDP ratio was 63.5%, which was more by 4.9 percentage points than the planned indicator. It passed the 60% threshold set by the fiscal rules, leading to the application of the strictest requirements of the fiscal rules.

As a result of the RA Government debt management all benchmark indicators defined by the 2020-2022 RA Government Debt Management Strategy were within the outlined ranges.

|  | Benchmark | 31.12.2020Actual |
| --- | --- | --- |
| **Refinancing risk** |  |  |
| Average time to maturity | 8 – 11 years | 8.8 years |
| Share of the Government treasury bonds maturing within a year in the outstanding Government treasury bonds (at the end of the year) | max 20% | 11.5 % |
| **Interest rate risk** |  |  |
| Share of fixed rate debt in total debt | min 80% | 80.4 % |
| **Exchange rate risk** |  |  |
| Share of domestic debt in total debt | min 20% | 25.5 % |
| Share of AMD denominated debt in total debt | min 20% | 24.4 % |

In 2020 the deficit financing by domestic net borrowings (without promissory notes) constituted AMD 300.5 billion or 84.7% of the total net borrowings for deficit financing, and by external net borrowings: AMD 54.1 billion or 15.3% of the total net borrowings for deficit financing. In 2020 deficit financing by domestic net borrowings (without promissory notes) was planned to be implemented by the approved budget at the amount of AMD 145․0 billion, but during the year the actual figure exceeded the initially approved program level more than twice due to the necessity to meet the financial needs arising from the pandemic and Artsakh war.

The weighted average yield of the primary allocations of the government treasury bonds in 2020 made up 7.74%, decreasing by 1.23 percentage points compared to the previous year (8.97%).

At the beginning of 2021 RA Government successfully allocated Eurobonds in the international capital market, that had USD 750 million nominal value, 10-year maturity and 3.875% yield․ The latter was significantly lower than the yields of Eurobonds issued in 2019 (4.2%) and in 2015 (7.5%). The coupon rate of newly issued Eurobonds is 3.6%

USD 97.7 million foreign currency denominated government bonds issued on September 30, 2013 were repaid as of September 30, 2020.

When providing loans to its member countries, International Development Association (IDA: an institution included in the World Bank Group), takes into account and stipulates in the loan agreements that the terms of the provided concessional loans may be revised if the country's gross national income per capita improves. The World Bank, studying the economic situation in Armenia in 2013, as well as taking into account that Armenia is creditworthy for financing from the loans of the International Bank for Reconstruction and Development and from 2015 will no longer be subject to lending from IDA resources, for the majority of the loans provided from July 1, 2014, in addition to the current interest rate, set 1.7% additional annual interest rate. On June 4, 2020, the World Bank informed that the additional interest rate (1.7%) will not be applied on the majority of the loans provided to Armenia by the International Development Association during the World Bank's financial year (from July 1, 2020 to June 30, 2021) taking into account the possible deterioration of the economic situation in Armenia due to the COVID-19 pandemic and the request of the Armenian side, which was extended for another year on June 29, 2021.

By the order N 30-A of the RA Minister of Finance on 7 February, 2020, the "Program of Measures to Improve the Performance of the RA public debt management" was approved, which envisages to regulate certain debt management functions, as well as to increase debt management accountability and transparency. During 2020, most of the measures envisaged by the above-mentioned program have already been implemented.

During 2020 the following operations have been carried out with regard to the Government treasury securities:

| 2020 | Placement volume | Receipts from placement | Redemption and buyback volume | Interest amount paid |
| --- | --- | --- | --- | --- |
| Government treasury bonds, billion AMD | 390.0 | 411.3 | 110.9 | 86.8 |

During 2020 the operations carried out with external loans were the following:

| 2020 | Receipt | Redemption | Interest amount paid |
| --- | --- | --- | --- |
| External loans, million USD | 416.1 | 214.0 | 101.6 |
| External loans, billion AMD | 203.8 | 103.1 | 48.6 |

During 2020 the operations carried out with foreign currency denominated Government bonds are the following:

| 2020 | Issue Volume | Receipts from placement | Redemption and buyback volume | Interest amount paid |
| --- | --- | --- | --- | --- |
| Foreign currency denominated Government bonds, million USD | - | - | 97.7 | 61.5 |
| Foreign currency denominated Government bonds, billion AMD | - | - | 46.5 | 29.2 |

# Cost-at-risk description of the RA Government debt portfolio

At the end of 2020 cost and risk indicators of the RA Government were the following:

##### RA Government debt cost and risk indicators as of 31.12.2020

|  | **Foreign currency debt** | **AMD** **debt** | **Total** |
| --- | --- | --- | --- |
| RA Government debt (billion AMD) | 2,965.1 | 958.8 | 3,923.9 |
| RA Government debt (million USD) | 5,673.8 | 1,834.8 | 7,508.5 |
| RA Government debt / GDP, (%) | 48.0 | 15.5 | 63.5 |
| Cost Indicators | Interest payment / GDP, (%) | 1.3 | 1.4 | 2.7 |
| Weighted average interest rate (%) | 2.3 | 10.4 | 4.3 |
| Refinancing risk | Average Time to Maturity (years) | 8.1 | 10.8 | 8.8 |
| Debt Maturing in 1 year (% of total) | 4.0 | 11.5 | 5.8 |
| Interest rate risk | Average Time to Refixing (years) | 5.9 | 10.8 | 7.1 |
| Debt Refixing in 1 year (% of total) | 30.3 | 11.5 | 25.7 |
| Fixed Rate Debt (% of total) | 74.1 | 100.0 | 80.4 |
| Exchange rate risk | Foreign Exchange Debt (% of total) | - | - | 75.6 |
| Short Term Foreign Exchange Debt (redemptions) / International Reserves, (%) | - | - | 8.7 |

The following indicators have been used in order to characterize the costs for the Government debt: Weighted average interest rate for the debt portfolio, Share of the interest payment in the State budget revenues and Share of the interest payment in GDP.

The average interest rate for the RA Government debt portfolio was 4.3% at the end of 2020, moreover, for AMD denominated debt it comprised 10.4%, for foreign currency debt: 2.3%.

The average interest rate for the RA Government debt portfolio (the ratio of the debt interest payment in 2020 to the outstanding debt as of the end of the previous year) made up 5.0% against 5.1% in 2019. In case of separation by residency, the average interest rate for the RA Government external debt was 3.0% in 2020 against 3.5% in 2019, and the same indicator for the RA Government domestic debt made up 12.1% against 11.0% of the previous year. The interest rates of the external loans have an increasing trend, because Armenia no longer has access to the concessional loans provided by the international organizations as a result of being classified as a middle-income country. Moreover, the World Bank and the Asian Development Bank have reviewed and increased the interest rates for the previously provided concessional loans. Regarding to the average interest rate in the domestic market, the average weighted yield of GS comprised 10.4% as of 31 December, 2020, compared to 11.8% at the end of 2019.

1. Average yield dynamics in 2018-2020

As a result of the year, the RA government succeeded in reduction of the weighted average yield by 1.4 percentage points, which was mainly due to the growing demand by the financial institutions for less risky assets within growing uncertainty in the real sector of the economy, due to the continued easing of monetary conditions by the Central Bank for most of the year, as well as the buyback and redemption of the high-yield GS during 2020.

During 2020, the RA Government paid AMD 164.7 billion interest on debt, which constituted 10.6% of the State budget revenues, 8.7% of State budget expenditures and 2.7% of GDP. All these three indicators reflect a moderate level of the RA Government debt costs.

Risks management is essential from the perspective of resolving the issue for the effective management of the RA Government debt.

***Exchange Rate Risk***

The most significant market risk in the existing RA Government debt portfolio is the exchange rate risk. The exchange rate risk is mostly measures by the following two indicators: Share of the foreign currency denominated debt in the total debt and Share of the foreign currency denominated short-term debt in the international reserves.

The current RA Government debt portfolio is exposed to a high exchange rate risk, because, as of 31 December 2020, the major part of the debt (75.6%) had been borrowed in foreign currency (it decreased by 3.65 percentage points compared to the previous year).

1. The shares of the foreign currency and AMD denominated RA Government debts in 2019-2020 (%)

The foreign currency structure of the FX denominated RA Government debt portfolio is presented below:

1. The foreign currency structure of the RA Government debt portfolio at the end of 2020

The right figure shows the foreign currency structure of the debt portfolio by the distribution of the shares of the corresponding SDR foreign currencies.

The share of short-term foreign currency debt in international reserves comprised 8.7%, which means that there is a sufficient amount of foreign currency assets to repay foreign currency debt.

The high share of the foreign currency debt is the result of the higher share in the debt portfolio of the borrowings provided by the bilateral and multilateral external creditors, as well as the existence of two issuances of Eurobonds with total USD 1.0 billion outstanding amount. In 2020, the share of the short-term FX denominated debt in the international reserves decreased by 1.8 percentage points and constituted 8.7%.

***Refinancing risk***

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

The average time to maturity indicator for the RA Government debt was 8.8 years as of 31 December 2020. Moreover, the average time to maturity for the RA Government external debt comprised 8.1 years, compared to 8.9 years for the previous period, and the average time to maturity for domestic debt was 10.6 years, against 9.8 years for the previous period. These two indicators were in a favourable range in terms of refinancing risk of the RA Government debt portfolio.

As of 31 December 2020, the share of debt maturing in one year constituted only 5.8%. It decreased by 1.2 percentage points compared to the previous year, mainly due to the Eurobonds matured in 2020, as well as due to the reduction of the weight of GS to be redeemed in coming year by 1.1 percentage points. In case of considering by residency, the share of the RA Government external debt maturing in one year was 4.1%, and the share of the RA Government domestic debt comprised 11.0%. It is worth mentioning that the share of domestic debt comprised 15.5% as at the end of 2019. The small volume of the Government external and domestic debt maturing in one year is possible to refinance without difficulties, which means that the RA Government debt portfolio exposed to a low refinancing risk.

The refinancing risk is better illustrated by the redemption profile, where the large redemption volumes in 2025 and 2029 are determined by the redemptions of the two issued Eurobonds, which constitute correspondingly the 47.9% and 46.6% of the debt being redeemed in the given year.

1. Redemption profile of the Government debt by instruments, as of 31.12.2020 (billion AMD)

The Government debt redemption profile is as follows with classification into domestic and external debts (in other words with classification by residency):

1. Redemption profile of the Government debt as of 31.12.2020

The redemptions of the Government debt formed by the end of 2020 are spread until 2054 for external debt and until 2050 for domestic debt.

***Interest rate risk***

The interest rate risk for the Government debt portfolio is assessed mainly through three indicators: the share of the fixed interest rate debt in the total debt, the share of debt to be refixed in the next year in the total debt, average time to refixing.

80.4% of the RA Government debt is with fixed interest rate. Moreover, 73.7% of the external debt and the whole domestic debt are with fixed interest rate. In this case, the rise of the yields for the floating interest rate debt cannot result in a significant increase of the costs.

Nevertheless, 25.7% of the Government debt is subject to refixing in 2021, hence the interest rate risk is moderate with regard to this indicator.

At the end of 2020, the Average time to refixing indicator comprised 7.1 years, which can be assessed as a low level of interest rate risk for the debt portfolio. This indicator is lower than the Average time to maturity indicator, because 19.6% of the debt is with floating interest rate, which is also subject to refixing during 2021.

As a result of the slow pace of performance of external-funded loan programs in recent years, and the consequent prolongation of loan disbursement deadlines, it was created a situation when concessional periods for a number of loans have been expiring, but the loans have not been fully disbursed yet, and in some cases, almost no disbursement took place. Maintaining such behaviour can increase the risk of debt refinancing and interest rate risk, as ceteris paribus, if the principal repayment deadlines for those loans remain unchanged and disbursements would be implemented at a faster pace, then the remaining time to maturity and time to refixing with regard to external loans will be significantly reduced, as well as the shares of the debt maturing in one year and refixing in one year will be increased.

Costs at risks analysis of the existing RA Government debt portfolio shows that the existing debt portfolio is mostly exposed to the exchange rate risk. This is confirmed by the sensitivity analyses of the RA Government debt portfolio carried out within the framework of this strategy.

# 2022-2024 RA Government Debt Management Strategy

## Macroeconomic assumptions and key risk factors

In the medium term, the fiscal policy will be aimed at reducing the government's debt burden and promoting long-term economic growth. In parallel with the recovery of the economy, it is planned to smoothly reduce the government debt burden to ensure the target of reducing the Government debt/GDP ratio below 60% set by the fiscal rules. Along with the fiscal consolidation, there will be a return to the logic of "golden rules" of public finances set by the fiscal rules, creating a stable basis for long-term economic growth and improving the structure of budget expenditures.

The macroeconomic forecasts and assumptions are briefly summarized in the following points:

* At present, the world is still suffering from the effects of the pandemic, but the negative effects are gradually weakening. IMF has revised its global economic growth forecast for 2021 upwards at 6% framework taking into account the current developments and the expectations for the growth of the economic activity in the coming months of the year. According to the IMF forecasts done in April, the economies of the partner countries of the RA estimated economic growth higher than their potential growth, outlining the recovery process, which will have a significant positive impact on the economic activity of the RA.
* The fiscal measures taken and currently taking by the RA Government for mitigation of the negative effects of the pandemic and Artsakh war and for recovering of the economy, as well as the gradual neutralization of the negative effects of the global pandemic along with the overcoming the global crisis of pandemic, the economic growth in 2021 will be restored and it will approach its potential level in medium-term. Under these circumstances, the forecast of the economic growth is 6.0% for 2021, and an average 4.3% for the medium term. However, the Government of the RA has also developed a target (high) economic growth scenario, which envisages an average 7% economic growth for 2022-2026, combined with the sustainable economic progress and the increase of competitiveness[[1]](#footnote-1).
* In 2021 there will be increase in the volumes of dollar-denominated exports and imports along with the gradually recovery of the economic activity and domestic and external demand. The current account deficit will be improved in 2021, approaching 2.1% of GDP, mainly due to the rapid recovery of remittances. In the medium term, the current account deficit will deepen, striving to reach its equilibrium level.
* In 2021, the RA Government will carry out smooth fiscal consolidation aiming not disrupting the recovery of the economy and ensuring the reduction of the debt burden, and in the medium term, in parallel with the recovery of the economy, the fiscal policy will focus on reducing debt levels and on maintaining sustainability, as well as the promotion of long-term economic growth with an emphasis on increasing the share of public investment and the efficiency of spending.
* In the short run the RA Central Bank will go on implementing the monetary policy aimed at neutralization of the risks of accelerating inflation expectations, at the same time, providing the most favourable conditions for the full recovery of aggregate demand, and in the medium term, in order to achieve the inflation target, will be ready to respond accordingly in case of any risks.
* The development of the world economy will largely depend on health measures to overcome COVID-19 pandemic, support packages և vaccination programs. In these conditions, the risks are assessed as balanced in the forecasts of the economic growth of the world, RA partners and RA.

The key indictors underlying in the 2022-2024 RA Government debt management strategy are reflected in the table below:

##### 2020-2024 RA Government debt management strategy key indicators

|  | 2020 Actual | 2021 Forecast | 2022 Forecast | 2023 Forecast | 2024 Forecast |
| --- | --- | --- | --- | --- | --- |
| Real GDP growth (%) | -7.4 | 6.0 | 5.2 | 3.7 | 4.0 |
| CPI (period average, %) | 1.2 | 5.3 | 4.1 | 4.0 | 4.0 |
| **RA Government transactions (% share of GDP)** |
| Revenues and grants | 25.2 | 23.5 | 24.0 | 24.1 | 24.3 |
| Expenditures | 30.6 | 28.1 | 26.4 | 26.1 | 26.2 |
| Deficit (-) | -5.4 | -4.6 | -2.4 | -2.1 | -1.9 |
| RA Government debt | 63.5 | 62.3 | 60.5 | 58.7 | 56.8 |
| **External sector** |
| Exports of goods and services (million USD) | 3,762.6 | 4,446.8 | 5,112.6 | 5,727.1 | 6,322.7 |
| Imports of goods and services (million USD) | 5,018.7 | 5,835.7 | 6,722.0 | 7,467.8 | 8,155.8 |
| Current account balance (% share of GDP) | -3.8 | -2.1 | -2.9 | -3.5 | -3.8 |
|  |  |  |  |  |  |
| RA Government debt (billion AMD) | 3,923.9 | 4,286.3 | 4,579.8 | 4,794.8 | 5,018.3 |
| Nominal GDP (billion AMD) | 6,181.7 | 6,880.2 | 7,570.8 | 8,171.1 | 8,835.4 |

The RA Government debt/GDP ratio is gradually decreasing in the medium term, and as of December 31, 2023, it will be below 60% threshold envisaged by the Article 5 of the RA Law “On Public Debt”. As the RA Government debt/GDP will exceed 50% at the end of each year in 2023-2024, therefore, according to the Article 5, Point 7 of the RA Law “On Public Debt”, the relevant fiscal rules established by the law will be applied.

As according to the Article 12, point 1 of the RA Law “On Public Debt” the three-year RA Government debt strategic program is included in the Medium-Term Expenditure Framework, thus the RA Government debt strategy is based on the macroeconomic forecasts compliant with the 2022-2024 Medium-Term Expenditure Framework (MTEF), the risks of which are manageable in terms of macroeconomic stability. The macroeconomic indicators and related risk analyses are presented in detail in the “Macroeconomic developments and forecasts” section of the 2022-2024 MTEF.

The input of realistic macroeconomic forecasts has a crucial role during the cost-at-risk analysis of debt, as their deviations can significantly alter the level and direction of the risk indicators. In other words, the fluctuations of both the market variables and the macroeconomic indicators can have a significant impact on the cost and risk indicators of the RA Government debt.

The forecast for the gross financing need under the baseline macro scenario is as follows:

##### Gross financing need (billion AMD)

|  | 2020 Actual | 2021 Forecast | 2022 Forecast | 2023 Forecast  | 2024 Forecast |
| --- | --- | --- | --- | --- | --- |
| State budget primary balance | (169.3) | (124.3) | 34.0 | 74.7 | 104.3 |
| RA Government debt interest payments | 164.7 | 194.5 | 215.7 | 243.5 | 268.1 |
| RA Government debt redemption | 260.5 | 272.4 | 312.8 | 373.4 | 701.2 |
| **Gross financing need** | 594.5 | 591.2 | 494.5 | 542.2 | 865.0 |
| Gross financing need / GDP, % | 9․6 | 8.6 | 6.5 | 6.6 | 9.8 |

Along with the growth of the debt of the RA Government, the interest payments and redemptions also increase in the medium term. The primary surpluses of the state budget in 2022-2024 reduce the financing need. The financing need/GDP indicator decreases by 2.1 percentage points in 2022 compared to the previous year, and increases by 0.1 and 3.2 percentage points in 2023 and 2024 respectively. The forecasted sharp growth of financing need in 2024 is due to the envisaged buyback of Eurobonds with outstanding amount of USD 500 million maturing in 2025.

The 2022-2024 Government debt management strategy is based on the above mentioned macroeconomic assumptions. However, occurrence of the shocks emanating from the external economic environment can evoke certain risks in terms of ensuring the targets foreseen by the strategy.

## Targets and measures to be implemented

* In the medium-term and long-term, the share of the domestic net borrowings in the State budget deficit financing will be increased along with the targeted change of the structure and composition, as well as the significant increase in the number of market participants. It will be aimed at reducing the foreign exchange rate risk, as well as will establish a background for the application of new instruments in the financial market (floating, index linked, targeted, etc.) and for the further development of the market. Driven by the progress of the pension and insurance reforms, it will be possible to speed-up the process of increasing the weight of the State budget deficit financing from the domestic sources.
* The increase of the liquidity of the Government treasury securities through enhancing volumes of the outstanding Government treasury securities will continue to be considered as a domestic public debt management target.
* By increasing the allocation volumes of Government short-term bonds, their issuances will be focused on 6-month maturity bonds. The concentration of short-term bills issuances around 6-month maturity T-bills will contribute to the increase of the liquidity in the money market, as well as will give a possibility to formulate a benchmark which is important for further development of the other segments of the capital market.
* In case of favourable developments in the financial markets, the possibility for certain accumulation of financial resources and building up a buffer will be considered. In case of undesirable developments in the domestic and external markets, this will allow executing the RA State budget without shocks, as well as adjusting the volume of deficit financing through Government treasury securities, if necessary.
* The legislation regulating the debt operations will be reviewed in accordance with the international best practice, in particular, the RA Law “On Public Debt” will be reviewed and it will meet the new standards used by international financial institutions. The improvement of the RA Law “On Public Debt” is also included as an action in the "2019-2023 Strategy of the Public Financial Management System Reforms" approved by the RA Government Decree N 1716-L on 28 November 2019 and in the "2019-2023 Action Plan of the Public Financial Management System Reforms".
* One of the most important factors of efficient debt management is the insurance of the transparency and the permanent communication with the society. For this, the Government will continue the open and public activities with the investors and society, as well as the presentations on debt reports.
* In order to refinance 2025 Eurobonds, it is planned to issue new Eurobonds in 2024, the proceeds of which will be used to buyback 2025 Eurobonds. These operations will not affect the financing of the 2024 state budget deficit.
* The RA Ministry of Finance will continue the buybacks and exchanges of the off-the-run Government treasury securities, aimed at smoothening the debt redemption profile and decreasing the refinancing risk, as well as increasing the liquidity of the on-the-run securities and contributing to the development of the secondary market.
* An electronic system for organizing of the Government treasury securities switch auctions will be introduced.
* Highlighting the importance of development of the retail market for the Government treasury securities, actions will be undertaken to extend the scope of the investors and the maturity of saving bonds. In this regard, in parallel to the actions aimed at strengthening the confidence towards the Government, public awareness activities will be implemented among the potential investors.
* The cooperation with the external creditors will be continued and deepened, giving preference to the cooperation with the creditors providing loans with more favourable terms and hard currency, and there will be a gradual shift to deficit financing through market instruments.

## Benchmark indicators

For the efficient management of the RA Government debt portfolio, it is necessary to identify and assess the risks inherent to the RA Government debt portfolio. For this regard, the RA Government debt management strategy defines benchmark indicators for the debt portfolio risks, which aim at keeping the exchange rate, interest rate and refinancing risks under control through certain restrictions. The benchmark indicators have been defined taking into account the features and constraints inherent to the RA Government debt management.

##### Benchmark indicators of the 2021-2024 RA Government debt portfolio

|  | Benchmark |
| --- | --- |
| **Refinancing risk** |  |
| Average time to maturity  | 8 – 11 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% |
| **Interest rate risk** |  |
| Share of fixed rate debt in total debt | min 80% |
| **Exchange rate risk** |  |
| Share of domestic debt in total debt | min 25% |
| Share of AMD denominated debt in total debt (%) | min 25% |

## Selection of the RA Government debt management strategy

The development of the domestic debt market and the increase of the share of AMD denominated debt in the Government debt are considered as strategic targets in order to retain the main risks of the RA Government debt management within manageability and, particularly, to decrease the high foreign exchange rate risk of the debt portfolio.

It is worth noting that among the benchmark indicators of the debt portfolio, the level of the share of the Government debt for non-residents to be considered as highly risky is 60% for the developing countries according to the Guideline of the Government debt sustainability for the countries having access to the capital market (published by the IMF on May 9, 2013), which in turn is divided into early warning lower (15%) and upper (45%) thresholds. Among the benchmark indicators of the debt portfolio according to the same Guideline for developing countries, the level of the share of the foreign currency Government debt to be considered as highly risky is 80% for the developing countries, which in turn is divided into early warning lower (20%) and upper (60%) thresholds.

The deficit financing through the domestic net borrowings will be fulfilled by allocating of the up to one-year maturity Government short-term securities, 3 and 5-year maturity medium-term coupon notes, 10 and 30-year maturity long-term coupon bonds, as well as 6-month, 1, 2 and 3-year saving coupon bonds.

The deficit financing through the external net borrowings will be fulfilled by attracting project loans from the bilateral and multilateral international creditors.

The results of the selected strategy (S1) and the other two alternative strategies in perspective of cost-at-risk are presented below. As an alternative second strategy (S2) it was reviewed the double volume of the deficit financing through the domestic net borrowings against the selected strategy, and as an alternative third strategy (S3) it was reviewed the double less volume of the deficit financing through the domestic net borrowings or, which is the same, the larger volume of the deficit financing through the external net borrowings. The result was the following:

1. RA Government debt / GDP indicator in 2024

The chart shows that from the selected three strategies, as a cost indicator, the RA Government debt / GDP indicator of S2 amounted at 58.0% and it is the highest. With respect to the cost, S2 strategy exceeds S1 strategy by 1.2 percentage points, but S1 strategy contains 0.7 percentage points more risk. If 30% exchange rate shock is applied for 2022, R3 strategy contains the highest risk, which is higher by 0.08 percentage points from R1 strategy and by 0.15 percentage points from R2 strategy. R1 strategy is definitely preferable than R3 strategy, because it contains less cost and risk. Moreover, R3 strategy assumes an increase in the share of foreign currency debt, and consequently a higher exchange rate risk, which is already the most significant risk of the existing government debt. Selection of the strategies is happening as a result of the study and analysis of the whole system of cost-at-risk indicators.

In addition, the 30% exchange rate depreciation shock is the typical maximum shock used for depreciation of the local currency in the debt medium-term strategy analytical toolkit developed jointly by the WB and IMF. The historical maximum value of AMD depreciation comprised 23.6% in 2009 (AMD against USD exchange rates at the end of the years were considered as base data).

The above mentioned analysis confirms that it is necessary to develop the domestic public debt market and gradually increase the share of net deficit financing through the domestic sources in the net deficit financing taking into account potential risks. Therefore, combining all factors, the S1 strategy (baseline scenario) was preferred.

Trends in improving the macro-environment in the economy, the existing level of the liquidity and the formulated stable demand for the Government treasury securities were taken into account while planning the structure of the deficit financing through the domestic net borrowings.

The State budget deficit financing through net borrowings for 2021-2024 is planned to be implemented as follows:

##### State budget deficit financing through net borrowings for 2021-2024 (billion AMD)

|  | 2021 State budget program | 2021 forecast | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- | --- |
| State budget deficit financing through net borrowings | 478.0 | 552.7 | 173.4 | 199.2 | 208.1 |
| Of which: |  |  |  |  |  |
| Domestic net borrowings (without promissory notes) | 209.9 | 203.5 | 220.0 | 240.0 | 260.0 |
| External net borrowings | 268.1 | 349.2 | (46.6) | (40.8) | (51.9) |

1. The structure of the deficit financing through domestic and external net borrowings in 2019-2024[[2]](#footnote-2)

It is not expected any significant increase in the debt interest payments costs in case of gradual replacement of the external debt with the domestic debt. Moreover, taking into account the fact that the concessionality of the loans to be borrowed from the external sources are diminishing, as well as there are already 30 years bonds in the domestic debt portfolio, then the gradual increase of the share of the domestic debt will positively affect also on the refinancing risk indicator.

## Cost-at-risk analysis of the selected strategy

In the circumstances of the main macroeconomic scenario of the 2022-2024 medium-term public expenditure program, based on the forecasted macroeconomic environment, cost indicators of the RA Government debt will not be essentially changed at the end of the forecasted period.

##### Forecasts of the cost indicators of the RA Government debt portfolio

|  | 2021State budget program | 2021 forecast  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- | --- |
| Average Interest Rate for the RA Government Debt Portfolio (%) | 5.0 | 5.0 | 5.0 | 5.3 | 5.6 |
| Interest Payment / State Budget Revenues (%) | 12.9 | 12.0 | 11.9 | 12.4 | 12.5 |
| Interest Payment / State Budget Expenditures (%) | 10.5 | 10.0 | 10.8 | 11.4 | 11.6 |
| Interest Payment / GDP (%) | 3.0 | 2.8 | 2.8 | 3.0 | 3.0 |

Generally, it is forecasted that during the medium term period in the case of the main macroeconomic scenario nominal GDP will grow faster than the debt volume, resulting in decrease of the RA Government debt/GDP ratio, which is forecasted to be 56.8% at the end of 2024. The average interest rate of the RA Government debt will be 5.6% at the end of the forecasted period. The Government debt interest payments/State budget revenues, the Government debt interest payments/State budget expenditures and the Government debt interest payments/GDP indicators are increasing during the medium term period comprising 12.5%, 11.6% and 3.0% respectively at the end of the period.

In the medium term, the increase in the interest payments of the RA Government debt is accelerating against the average annual growths of the State budget revenues, State budget expenditures and nominal GDP. In the medium term, the average growth rate of interest payments of the RA Government debt is forecasted to be 11.3%, which on average will exceed the growth rate of State budget revenues by 1.3 percentage points, the growth rate of State budget expenditures by 5.2 percentage points and the nominal GDP growth rate by 2.6 percentage points. It should be noted that the annual growth of interest payments of the RA Government debt accelerates and comprises 12.9% in 2023 against 10.9% of the previous year, but it slows down to some extent at the end of the medium-term period making up 10.1% in 2024.

The exchange rate risk, refinancing risk, interest rate risk and operational risks are deemed to be important from the risks management perspective.

Exchange rate risk

The level of the Share of domestic debt in total debt indicator will be within the defined benchmark range in the medium term, reaching 38.5% at the end of the period.

##### The weights of the RA Government domestic debt and AMD denominated debt in the total debt

|  | 2021State budget program | 2021 forecast  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- | --- |
| Domestic debt / Total debt (%) | 28.1 | 28.3 | 31.3 | 34.9 | 38.5 |
| AMD denominated debt / Total debt (%) | 27.1 | 27.1 | 30.2 | 33.8 | 37.5 |

At the end of 2024, the weight of the foreign currency denominated debt decreases over the medium-term, constituting 62.5%, however the exchange rate risk of the RA Government debt portfolio will still remain the main risk factor in the upcoming years.

#####  The structure of the RA Government foreign currency denominated debt in 2021-2024, as of the end of year (%)

|  | 2021State budget program | 2021 forecast  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- | --- |
|  USD  | 42.9 | 57.7 | 58.0 | 59.2 | 61.7 |
|  SDR  | 34.4 | 13.0 | 14.0 | 15.0 | 16.5 |
|  EUR  | 18.0 | 25.6 | 24.5 | 22.5 | 18.7 |
|  JPY  | 4.2 | 3.2 | 3.1 | 3.0 | 2.8 |
| AED | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| CNY | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |

The SDR debt has the second largest volume in the structure of the Government foreign currency debt. If SDR, which is composed of five currencies, is broken down in accordance with the shares of each currency in the basket - USD – 41.73%, EUR – 30.93%, GBP – 8.09%, JPY – 8.33% and CNY – 10.92%, then the structure of the RA Government foreign currency denominated debt will be as follows:

##### The structure of the RA Government foreign currency denominated debt in 2021-2024, as of the end of each year, with breakdown of SDR (%)

|  | 2021State budget program | 2021 forecast  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- | --- |
| USD | 57.3 | 63.2 | 63.8 | 65.4 | 68.6 |
| EUR | 28.6 | 29.7 | 28.9 | 27.2 | 23.8 |
| GBP | 2.8 | 1.1 | 1.1 | 1.2 | 1.3 |
| JPY | 7.0 | 4.3 | 4.3 | 4.2 | 4.2 |
| AED | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| CNY | 4.2 | 1.8 | 1.9 | 1.9 | 2.1 |

From the perspective of the decrease and efficient management of the exchange rate risk, the dependence from one or more currencies will be reduced, if there will be such kind of possibility during the negotiation of the loan terms. At the same time, the different hedging approaches will be used (for example, FX swaps) along with the development of the foreign exchange market.

In the structure of the Government foreign currency debt the shares of SDR and JPY will decrease at the end of the forecasted period against actual indictor of 2020 by 14.1 and 1.2 percentage points respectively, but the shares of USD and EUR will increase 11.0 and 4.4 percentage points respectively.

1. The share of the RA Government foreign currency denominated debt redemptions and interest payments in the coming year in the foreign currency assets at the end of the same year during 2021-2024

The share of the RA Government foreign currency denominated debt redemptions and interest payments in the coming year in the foreign currency assets at the end of the same year indicator will significantly increase in 2023 and will comprise at 40.7% due to the buyback of 2025 Eurobonds during 2024 in order to refinance Eurobonds to be matured in 2025 with the proceeds of new 2024 Eurobond issuance. This indicator will sharply decrease in 2024 and will comprise at 14.5%. This indicator assesses the capacity of the RA Government to service the redemptions and interest payments of the foreign currency denominated debt from the perspective of the availability of sufficient foreign currency assets.

Refinancing risk

The refinancing risk is deemed to be important due to the redemption volumes of the RA Government debt and possible negative developments in the international and domestic financial markets in the upcoming years. The RA Government puts efforts towards smoothening the redemption profile and mitigating the refinancing risk in the process of new debt borrowings. Buybacks are also used for mitigating the refinancing risk.

##### Refinancing risk indicators for the RA Government debt in 2021-2024

|  | 2021 forecast  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- |
| **Average Time to Maturity for the RA Government Debt, (years)** | 8.4 | 7.8 | 7.5 | 7.7 |
| Average Time to Maturity for the RA Government External Debt, (years) | 7.7 | 7.0 | 6.4 | 6.8 |
| Average Time to Maturity for the RA Government Domestic Debt, (years) | 10.3 | 9.7 | 9.4 | 9.0 |
| **Share of the RA Government Debt Maturing in One Year (%)** | 6.1 | 7.1 | 13.6 | 9.7 |
| Share of the RA Government External Debt Maturing in One Year (%) | 3.9 | 5.5 | 15.2 | 7.2 |
| Share of the RA Government Domestic Debt Maturing in One Year (%) | 11.6 | 10.7 | 10.7 | 13.7 |

The Average time to maturity indicator for the RA Government debt portfolio will reduce reaching 7.7 years at the end of 2024, however, the refinancing risk will remain moderate.

The Share of the RA Government debt maturing in one year in the total debt indicator will comprise 9.7% at the end of 2024, moreover, the share of the RA Government external debt maturing in one year in the external debt will make up 7.2% and the share of the RA Government domestic debt maturing in one year in the domestic debt will be 13.7%.

The RA Government debt payments indicator is presented below as well, which represents the sum of the principal repayments and interest payments during the year.

##### RA Government debt payments during 2019-2024 (billion AMD)

The RA Government debt payments indicator increases in the medium-term, reaching AMD 969.3 billion in 2024.

##### The RA Government debt payments by instruments (billion AMD)

|  | 2021State budget program | 2021 forecast  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- | --- |
| **RA Government Current Debt by Instruments, of which:** | 480.4 | 466.9 | 528.6 | 616.9 | 969.3 |
|  External Loans and Borrowings | 172.2 | 163.7 | 171.9 | 226.3 | 281.5 |
| Interest Payment | 46.2 | 46.0 | 45.2 | 49.6 | 48.8 |
| Redemption | 126.1 | 117.8 | 126.7 | 176.6 | 232.7 |
| Government Treasury Bonds | 271.9 | 266.9 | 314.2 | 348.0 | 385.0 |
| Interest Payment | 112.3 | 112.3 | 128.0 | 151.2 | 176.3 |
| Redemption | 159.6 | 154.6 | 186.2 | 196.8 | 208.6 |
| Foreign currency Denominated Government Bonds | 36.3 | 36.3 | 42.5 | 42.7 | 302.8 |
| Interest Payment | 36.3 | 36.3 | 42.5 | 42.7 | 42.9 |
| Redemption | - | - | - | - | 259.9 |

The RA Government controls the refinancing risks through the application of the debt and cash flow management instruments (buybacks, depositing the available funds in the Central Bank of RA and etcetera).

Interest rate risk

Interest rate risks require a greater attention, as the share of the borrowings on market terms is continuously increasing. The objective of the interest rate risk management is to ensure such a Government debt structure so that the impact of the interest rate fluctuations in the financial markets on the interest payments would be as low as possible. The interest rate risk indicators for the RA Government debt remain manageable in the forecasted period.

The share of the fixed rate debt will gradually increase in the medium-term period and will reach to 85.4% at the end of 2024 according to the forecast. The increase in the share of fixed interest rate debt will be significantly facilitated by the fact that in the forecasted period the Government of the RA will increase the volume of domestic fixed interest rate debt compared to previous years. It is forecasted that the share of the outstanding volume of the Government treasury securities will rise in the medium-term period and will constitute 37.5% of the RA Government debt in 2024 against 24.4% actual indicator in 2020. On the other hand, the international creditors will provide new loans with more floating interest rate, which in its turn, will alleviate the growth rate of the share of RA Government debt with fixed interest rate. If there would be a necessity to manage the interest rate risk, the fixing of the interest rates for the loans with floating interest rates will be implemented in accordance with the procedures set by the external creditors.

##### The weights of the fixed and floating interest rate loans in the structure of the RA Government debt in 2021-2024 (%)

|  | 2021State budget program | 2021 forecast  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- | --- |
| RA Government Debt,  | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
|  including: |  |  |  |  |  |
| Fixed Rate | 81.3 | 82.4 | 82.4 | 83.6 | 85.4 |
| Floating Rate | 18.7 | 17.6 | 17.6 | 16.4 | 14.6 |
| RA Government External Debt | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
|  including: |  |  |  |  |  |
| Fixed Rate | 74.0 | 75.4 | 74.5 | 74.8 | 76.2 |
| Floating Rate | 26.0 | 24.6 | 25.5 | 25.2 | 23.8 |
| RA Government Domestic Debt | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
|  including: |  |  |  |  |  |
| Fixed Rate | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Floating Rate | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

The Average time to refixing indicator for the RA Government debt will amount at 6.7 years and the share of the RA Government debt refixing in one-year indicator will be 22.5% at the end of the period.

##### The Interest rate risk indicators of the Government debt in 2021-2024

|  | 2021 forecast  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- |
| **Average Time to Refixing for the RA Government Debt, (years)** | 7.2 | 6.7 | 6.4 | 6.7 |
| Average Time to Refixing for the RA Government External Debt, (years) | 5.9 | 5.3 | 4.8 | 5.3 |
| Average Time to Refixing for the RA Government Domestic Debt, (years) | 10.3 | 9.7 | 9.4 | 9.0 |
| **Share of the RA Government Debt Refixing in One Year (%)** | 23.2 | 23.2 | 27.5 | 22.5 |
| Share of the RA Government External Debt Refixing in One Year (%) | 27.7 | 28.9 | 36.5 | 28.1 |
| Share of the RA Government Domestic Debt Refixing in One Year (%) | 11.6 | 10.7 | 10.7 | 13.7 |

Operational risk

The operational risk is defined as the result of the external factors and technologies, as well as the consequence of the insufficient operation of the staff, organization and processes. It is important from the perspective of the operational risk management to ensure the security of the information, including the documents and the technological systems. It is necessary to ensure a backup of the debt recording and accounting database in order to avoid the disruption of the work process and the process for the storage of the complete information, to fulfil the debt obligations timely and accurately in the cases of force majeure. Public debt management department of the Ministry of Finance of RA will implement the activities envisaged by the Business Continuity and Disaster Recovery Plan in order to identify, assess, manage and mitigate the operational risks related to the RA Government debt management.

## Sensitivity analysis

The cost-at-risk analysis implemented so far was based on the forecasted macroeconomic and fiscal indicators and represents the baseline scenario for the RA Government debt management strategy. The deviations of the cost-at-risk indicators from the baseline scenario after simulating different shocks to the market variables are presented below.

##### RA Government debt / GDP ratio in 2021-2024

##### Interest payments / GDP ratio in 2021-2024

Exchange rate shock

The RA Government debt portfolio is exposed to substantial exchange rate risks. When applying 30% shock and devaluating the AMD against the USD, EUR and SDR in 2022, the RA Government debt / GDP ratio reaches 68.0% at the end of 2024, which exceeds the same indicator against the baseline scenario by 11.2 percentage points.

1% change in the exchange rates formed as of 01.04.2021 (based on which the foreign currency denominated RA Government debt has been converted into USD) will result in an average annual change of the foreign currency denominated RA Government debt by AMD 32.5 billion or 0.4% of GDP during 2022-2024.

Interest rate shock

Analysing the shock scenario, which is the increase of the interest rates for the external borrowings by 250 basis points and for the domestic borrowings by 500 basis points, it becomes clear that the impact of the interest rate shock on the RA Government debt portfolio remains moderate. The RA Government debt / GDP ratio reaches to 58.9% at the end of 2024, increasing by 2.1 percentage points against the same indicator of the baseline scenario. In this case, the Interest payment / GDP ratio can increase by 0.9 percentage points.

At the same time another shock scenario was analysed, which assumed the substantial 500 basis points increase of the interest rates for the external borrowings and 1000 basis points increase for the domestic borrowings, which has a quite low probability of materializing. Such an interest rate shock will increase the RA Government debt / GDP ratio up to 61.1% or by 4.3 percentage points against the baseline scenario at the end of 2024. From the perspective of the RA Government debt service, this substantial shock can increase the Interest payment / GDP ratio indicator by 2.0 percentage points at the end of 2024.

Exchange rate and interest rate combined shock

Applying combined 15% exchange rate shock (devaluating the AMD against the USD, EUR and SDR in 2022) and interest rate shock described in the first scenario, RA Government debt / GDP ratio reaches 64.7% at the end of 2024, which is more by 7.9 percentage points against the same indicator of the baseline scenario. In this case, the Interest payment / GDP ratio can increase by 1.2 percentage points.

The impacts of a one percentage point increase of the floating interest rate debt and a one percentage point increase of the domestic interest rates are presented below.

In case of a one percentage point change of the floating interest rates – 6-month USD Libor and 6-month Euribor, the interest costs of the RA Government external debt will be annually changed by AMD 6.4 billion in average during 2022-2024. In particular, the impact of each floating interest rate on the RA Government external debt interest payments during the forecasted period would be as follows:

##### The impact of a one percentage point change of the floating interest rates on the interest payments of the RA Government external debt

|  | 2022 | 2023 | 2024 |
| --- | --- | --- | --- |
| Change in the Interest Payment for the RA Government External Debt (billion AMD) | 6.2 | 6.4 | 6.6 |
| including: |  |  |  |
| 6-month USD Libor (billion AMD) | 5.4 | 5.4 | 5.5 |
| 6-month Euribor (billion AMD) | 0.9 | 1.0 | 1.2 |
| Change in the Interest Payment for the RA Government External Debt (%) | 13.8 | 12.8 | 13.6 |
| The Share of the Change in the Interest Payment for the RA Government External Debt in the Own Revenues of the State Budget (without grants) (%) | 0.3 | 0.3 | 0.3 |

In the domestic debt market, at the beginning of the medium-term period, a one percentage point an upward shift of the yield curve would increase the domestic debt interest payments annually by AMD 5.6 billion during 2022-2024.

##### The impact of a one percentage point change in the RA Government domestic debt interest rate at the beginning of the medium-term period on the interest payments for the RA Government domestic debt

|  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- |
| Change in the Interest Payment for the RA Government Domestic Debt (billion AMD) | 1.8 | 5.5 | 9.6 |
| Change in the Interest Payment for the RA Government Domestic Debt (%) | 1.4 | 3.6 | 5.4 |
| The Share of the Change in the Interest Payment for the RA Government Domestic Debt in the Own Revenues of the State Budget (without grants) (%) | 0.1 | 0.3 | 0.4 |

The conducted sensitivity analyses allow assuming that the impact of the exchange rate shock on the RA Government debt portfolio is much higher than the impact of the interest rate shock. This is mainly due to the on the one hand high weight of the foreign currency denominated debt and on the other hand the dominance of the fixed rate debt in the RA Government debt portfolio.

## Conclusions

The results of the Government debt portfolio cost-at-risk analysis show that the debt portfolio is mostly exposed to exchange rate risk. Therefore, the RA Government considers as a priority the continuous development of the Government treasury securities market and the surge of the share of AMD denominated debt by increasing the volume of the borrowings from the domestic market. In 2022-2024, it is planned to increase the share of the deficit financing through the domestic net borrowings and completely finance the deficit through the domestic net borrowings in the medium-term.

It is important to mention that the actions to be carried out only in the RA Government debt management area are not sufficient for the substantial development of the RA Government domestic debt market. One of the preconditions for the development of the domestic debt market and the extension of the investors’ base is also the full implementation of the reforms in other segments of the financial market (pension, insurance, etc.).

In the medium-term, the RA Government will continue implementing the actions aimed at smoothening of the RA Government debt redemption profile and reducing the refinancing risk, by applying liquidity management instruments such as the formation of the cash buffer, implementation of buybacks and switches.

Appendix

2019-2020 actual, 2021 state budget program and 2021-2024 forecasted indicators characterizing the RA government debt

##### The key indicators of the RA Government debt in 2019-2024 (billion AMD)

|  | 2019 Actual | 2020 Actual  | 2021 State budget program | 2021 forecast  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Government Debt | 3,277.3 | 3,923.9 | 4,345.7 | 4,286.3 | 4,579.8 | 4,794.8 | 5,018.3 |
| % to GDP | 50.1 | 63.5 | 66.5 | 62.3 | 60.5 | 58.7 | 56.8 |
| By residency |  |  |  |  |  |  |  |
| Government Domestic Debt | 737.2 | 997.6 | 1,221.3 | 1,212.2 | 1,433.5 | 1,673.0 | 1,932.4 |
| Government External Debt | 2,540.1 | 2,926.2 | 3,124.3 | 3,074.1 | 3,146.3 | 3,121.8 | 3,085.8 |
| By instruments |  |  |  |  |  |  |  |
| External Loans and Borrowings | 2,065.9 | 2,438.0 | 2,299.1 | 2,250.4 | 2,290.3 | 2,260.9 | 2,220.2 |
| Government Treasury Bonds | 681.0 | 958.8 | 1,178.1 | 1,162.3 | 1,382.3 | 1,622.3 | 1,882.3 |
| Foreign currency Denominated Government Bonds | 526.5 | 522.6 | 864.1 | 869.5 | 902.9 | 907.5 | 912.0 |
| External Guarantees | 3.8 | 4.5 | 4.4 | 4.1 | 4.2 | 4.1 | 3.8 |
| Domestic Guarantees | - | - | - | - | - | - | - |
| Interest Payment for Government Debt  | 157.5 | 164.7 | 194.7 | 194.5 | 215.7 | 243.5 | 268.1 |
| Interest Payment / State Budget Expenditures (%) | 9.7 | 8.7 | 10.5 | 10.0 | 10.8 | 11.4 | 11.6 |
| Interest Payment / State Budget Own Revenues (without grants) (%) | 10.1 | 10.9 | 13.1 | 12.2 | 12.0 | 12.5 | 12.5 |
| Interest Payment / GDP (%) | 2.4 | 2.7 | 3.0 | 2.8 | 2.8 | 3.0 | 3.0 |

#####  Government bond indicators in 2019-2024

|  | 2019 Actual | 2020 Actual  | 2021 State budget program | 2021 forecast  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Government Treasury Bonds, billion AMD | 681.0 | 958.8 | 1,178.1 | 1,162.3 | 1,382.3 | 1,622.3 | 1,882.3 |
| % to GDP | 10.4 | 15.5 | 18.0 | 16.9 | 18.3 | 19.9 | 21.3 |
| By Days to Maturity, billion AMD |  |  |  |  |  |  |  |
| Up to 1 year | 86.2 | 110.4 | 121.5 | 141.5 | 153.9 | 162.9 | 265.4 |
| 1-5 years | 196.1 | 277.6 | 349.8 | 308.5 | 421.5 | 512.1 | 655.1 |
| More than 5 years | 398.7 | 570.8 | 706.8 | 712.4 | 806.9 | 947.4 | 961.8 |
| Share by Days to Maturity (%) | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Up to 1 year | 12.7 | 11.5 | 10.3 | 12.2 | 11.1 | 10.0 | 14.1 |
| 1-5 years | 28.8 | 29.0 | 29.7 | 26.5 | 30.5 | 31.6 | 34.8 |
| More than 5 years | 58.5 | 59.5 | 60.0 | 61.3 | 58.4 | 58.4 | 51.1 |
| Average Interest Rate (%) | 11.8 | 10.4 | 9.6 | 10.1 | 10.0 | 10.0 | 9.9 |
| Average Time to Maturity (years) | 10.2 | 10.8 | 10.3 | 10.5 | 9.9 | 9.7 | 9.2 |
| Foreign currency Denominated Government Bonds, million USD | 1,097.7 | 1,000.0 | 1,750.0 | 1,750.0 | 1,750.0 | 1,750.0 | 1,750.0 |
| % to GDP | 8.0 | 8.5 | 13.2 | 12.6 | 11.9 | 11.1 | 10.3 |
| Average Interest Rate (%) | 5.9 | 5.9 | 5.6 | 5.0 | 5.0 | 5.0 | 4.1 |
| Average Time to Maturity (years) | 6.9 | 6.5 | 7.3 | 7.0 | 6.0 | 5.0 | 6.8 |

##### Indicators for the RA Government loans and borrowings in 2019-2024 (million USD)

|  | 2019 Actual | 2020 Actual  | 2021 State budget program | 2021 forecast  | 2022 forecast | 2023 forecast | 2024 forecast |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Government Loans and Credits | 4,306.7 | 4,665.2 | 4,656.4 | 4,529.6 | 4,438.9 | 4,360.1 | 4,260.2 |
| In % to GDP | 31.6 | 39.4 | 35.2 | 32.7 | 30.3 | 27.7 | 25.1 |
| By residency |  |  |  |  |  |  |  |
| External Loans and Credits | 4,306.7 | 4,665.2 | 4,656.4 | 4,529.6 | 4,438.9 | 4,360.1 | 4,260.2 |
| Domestic Loans and Credits | - | - | - | - | - | - | - |
| By lender |  |  |  |  |  |  |  |
| From International Financial Organizations | 3,237.4 | 3,588.2 | 3,625.4 | 3,511.7 | 3,452.3 | 3,398.0 | 3,303.8 |
| From Foreign States | 1,048.9 | 1,056.5 | 1,014.1 | 1,000.5 | 971.5 | 949.2 | 945.9 |
| From Commercial Banks | 20.5 | 20.6 | 16.9 | 17.4 | 15.1 | 12.8 | 10.6 |
| Average Interest Rate (%) | 2.3 | 1.5 | 2.0 | 1.6 | 2.0 | 2.2 | 2.2 |
| Average Time to Maturity (years) | 9.3 | 8.4 | 7.8 | 7.8 | 7.3 | 6.9 | 6.8 |

1. The description of the macroeconomic scenario of target economic growth, the conditions for its provision and the fiscal scenario can be found in the 2022-2024 MTEF document, in the subsection "1․3․1.Target (high) economic growth scenario ". [↑](#footnote-ref-1)
2. It is forecasted that the financing of the state budget deficit in 2022-2024 will not only be fully implemented with the net domestic borrowing funds, but also the net domestic borrowing funds will finance the negative flows emanated from deficit financing through net external borrowing funds. [↑](#footnote-ref-2)