

2018 ANNUAL BORROWING PLAN

(Non-official translation)

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1. General description

The 2018 Annual Borrowing Plan has been developed in accordance with the targets and benchmark indicators of the 2018-2020 Medium-Term Government Debt Strategy and based on the macroeconomic framework and indicators applied for the preparation of the 2018 State Budget of the Republic of Armenia.

Starting from 2018 the Government of Armenia has upgraded fiscal rules to increase the efficiency of the fiscal policy in stimulating the economy and in ensuring the long-term economic growth, at the same time to ensure the debt sustainability. For this purpose the Government has developed and introduced new more flexible and comprehensive fiscal approaches and rules compliant with the current characteristics of Armenia's economy. The draft of 2018 State Budget is developed based on new fiscal rules.

The main indicators of 2018 State Budget of RA

<i>Indicators</i>	<i>2018</i>
GDP, AMD billion	5,850.7
Real growth, %	4.5
GDP deflator, %	3.5
State Budget revenues, AMD billion	1,308.3
State Budget expenditures, AMD billion	1,465.2
State Budget deficit, AMD billion	(156.9)
State Budget deficit/GDP, %	(2.7)
USD / AMD exchange rate	483.06

2. Financing needs and deficit financing sources

According to main indicators of the 2018 State Budget, the gross financing needs is estimated to be AMD 364.1 billion, in particular:

<i>Indicators, AMD billion</i>	<i>2018</i>
Primary deficit	15.7
Debt service (Interest payments)	141.2
Debt redemption	185.6
Net financial assets and redemption of promissory notes	21.6
Total	364.1

It is planned to finance 44.8% of gross financing needs through domestic borrowings, and 55.2% – through external borrowings. Government treasury bonds in amount of AMD 166 billion will be allocated with expected AMD 163 billion proceeds, and AMD 201.1 billion will be financed by external loans.

The deficit of the 2018 State Budget is accounted to AMD 156.9 billion, with the following financing sources:

<i>Indicators, AMD billion</i>	<i>2018</i>
Total deficit	156.9
including:	
Domestic sources	77.0
of which:	
Net borrowings	46.0
Proceeds from allocation of treasury bonds	163.0
Treasury bonds redemption/buyback	(116.0)
Redemption of promissory notes	(1.0)
Net financial assets	31.0
Provision of loans and borrowings (net)	(40.8)
Free residue of 2018 State Budget at the beginning of the year	31.9
Use of the stabilization deposit account	39.9
External sources	79.9
of which:	
Net borrowings	131.5
Receipt of loans and borrowings	201.1
Redemption of the received loans and borrowings	(69.6)
Net financial assets	(51.6)
Provision of loans and borrowings (net)	(50.8)
Acquisition of stocks and other participation in equity	(0.8)

In 2018, it is planned to finance the State Budget deficit from domestic and external sources almost equally (49/51 proportion). Moreover, 61.1% (AMD 47.0 billion) of net financing (AMD 77.0 billion) planned from domestic sources will be financed through Government treasury bonds. It is expected to borrow AMD 131.5 billion in net from external loans for the planned net financing of AMD 79.9 billion from external sources.

3. Debt instruments of deficit financing

In 2018, it is planned to finance the State Budget deficit through borrowings in the amount of AMD 178.5 billion, of which AMD 47 billion shall be financed through government treasury bonds and AMD 131.5 billion through external loans.

According to 2018-2020 Medium-Term Government Debt Strategy, it was planned to finance the 2018 State Budget deficit through borrowings in the amount of AMD 231.8 billion, of which AMD 47 billion through government treasury bonds and AMD 184.4 billion through external loans. The difference is due to the changes in deficit financing sources while the volume of 2018 State Budget deficit (AMD 156.9 billion) remains unchanged. Particularly, the amount of net financing from domestic sources was increased by AMD 51 billion (AMD 11 billion in net provision of loans and borrowing and AMD 40 billion in use of the stabilization deposit account) and net financing from external sources (external loans) was decreased by AMD 53.3 billion.

3.1. Deficit financing by government treasury bonds

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

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

New medium-term treasury bonds with tenors of 3 and 5 years will be issued on 29 April 2018.

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

The information on volumes (range) and tenors of the bonds subject to allocation at each auction will be published prior to the auction, after discussion with the Primary Dealers.

Treasury bonds buybacks are also planned during 2018. The 70-80% of the buybacks is planned for smoothening the redemption profile, and 20-30% - for enhancing the liquidity. During the placement period of each issue, the Ministry of Finance does not implement buyback of those bonds (on-the-run).

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

Treasury bonds auctions calendar is presented below.

January 2018								February 2018								March 2018							
Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun
1	1	2	3	4	5	6	7	5				1	2	3	4	9				1	2	3	4
2	8	9	10	11	12	13	14	6	5	6	7	8	9	10	11	10	5	6	7	8	9	10	11
3	15	16	17	18	19	20	21	7	12	13	14	15	16	17	18	11	12	13	14	15	16	17	18
4	22	23	24	25	26	27	28	8	19	20	21	22	23	24	25	12	19	20	21	22	23	24	25
5	29	30	31					9	26	27	28					13	26	27	28	29	30	31	
April 2018								May 2018								June 2018							
Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun
13							1	18		1	2	3	4	5	6	22					1	2	3
14	2	3	4	5	6	7	8	19	7	8	9	10	11	12	13	23	4	5	6	7	8	9	10
15	9	10	11	12	13	14	15	20	14	15	16	17	18	19	20	24	11	12	13	14	15	16	17
16	16	17	18	19	20	21	22	21	21	22	23	24	25	26	27	25	18	19	20	21	22	23	24
17	23	24	25	26	27	28	29	22	28	29	30	31				26	25	26	27	28	29	30	
18	30																						
July 2018								August 2018								September 2018							
Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun
26							1	31			1	2	3	4	5	35						1	2
27	2	3	4	5	6	7	8	32	6	7	8	9	10	11	12	36	3	4	5	6	7	8	9
28	9	10	11	12	13	14	15	33	13	14	15	16	17	18	19	37	10	11	12	13	14	15	16
29	16	17	18	19	20	21	22	34	20	21	22	23	24	25	26	38	17	18	19	20	21	22	23
30	23	24	25	26	27	28	29	35	27	28	29	30	31			39	24	25	26	27	28	29	30
31	30	31																					
October 2018								November 2018								December 2018							
Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Week	Mon	Tue	Wed	Thu	Fri	Sat	Sun
40	1	2	3	4	5	6	7	44				1	2	3	4	48						1	2
41	8	9	10	11	12	13	14	45	5	6	7	8	9	10	11	49	3	4	5	6	7	8	9
42	15	16	17	18	19	20	21	46	12	13	14	15	16	17	18	50	10	11	12	13	14	15	16
43	22	23	24	25	26	27	28	47	19	20	21	22	23	24	25	51	17	18	19	20	21	22	23
44	29	30	31					48	26	27	28	29	30			52	24	25	26	27	28	29	30
																1	31						

Short-term government treasury bonds
Medium-term government treasury bonds
Long-term government treasury bonds

Based on the market situation and after discussion with the Primary dealers, the Ministry of Finance may amend the current calendar or cancel auction days.

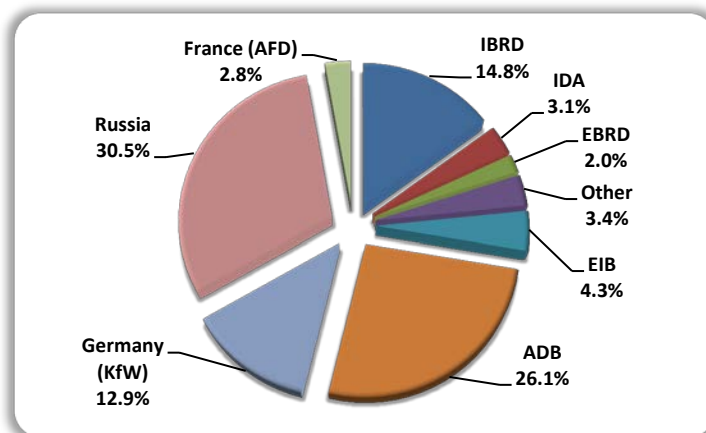
Based on the borrowing needs and market trends, the Ministry of Finance may announce additional auction days. As a rule, the settlement is done on the next business day after the auction day (T+1).

3.2. Deficit financing by external loans

In order to finance the State Budget deficit in 2018, it is planned to make disbursements of AMD 198.3 billion (USD 410.6 million) from external loans¹. Moreover, disbursements from the budgetary support loans will amount to AMD 47.6 billion (USD 98.5 million), and disbursements from project loans will be AMD 150.7 billion (USD 312.1 million).

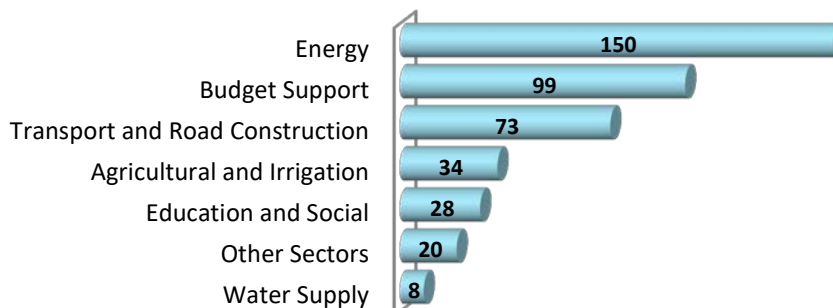
Around one-third (30.5%) of 2018 disbursements will be withdrawn from Russian loans, 26.1% from Asian Development Bank loans and 18.0% from World Bank (IBRD and IDA). The structure of disbursements by lenders is as follows:

Structure of disbursements by lenders (%)



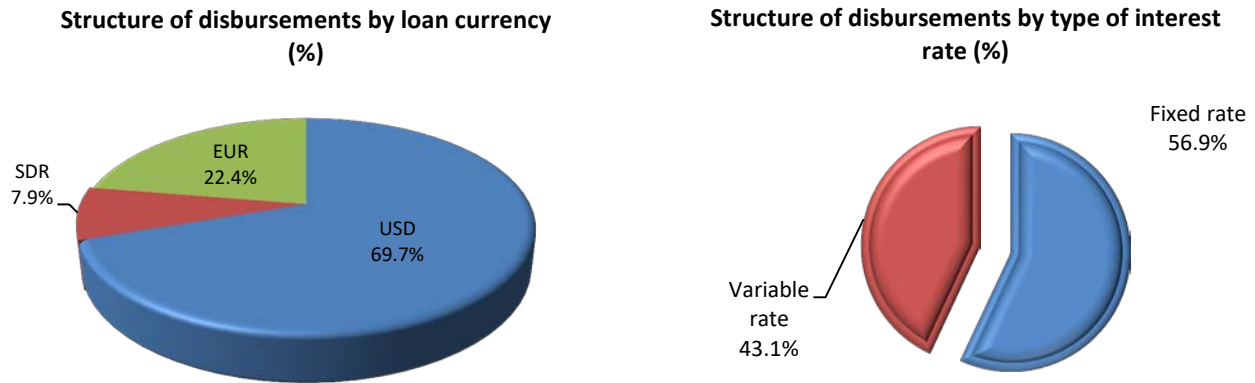
The largest volume of disbursements from project loans is planned from Armenian Nuclear Power Plant Rehabilitation Project (USD 114.2 million) and North-South Road Corridor Project (USD 34.1 million). The structure of disbursements by sectors is as follows:

Structure of disbursements by sectors (USD million)



¹ The difference between the deficit financing by external loans and the disbursements under external loans is the residual cash available on the special accounts opened in frames of the corresponding loan programs.

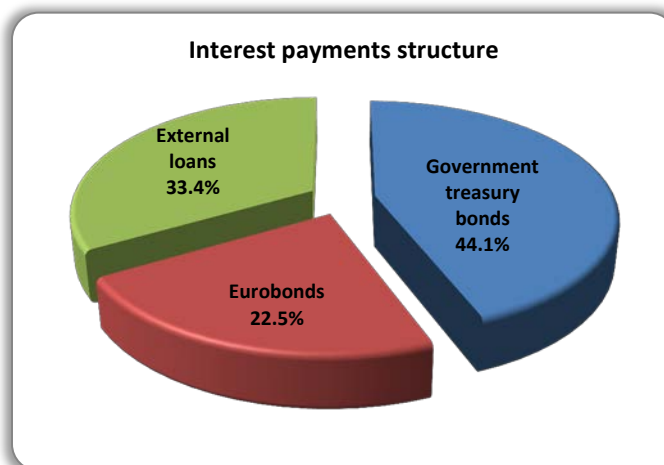
In 2018 the largest share of disbursements (69.7%) will be done from the loans provided in USD.



4. Redemption and servicing of the government debt

In 2018 for the redemption and servicing of the government debt AMD 326.8 billion is required, of which the redemptions of the debt will constitute AMD 185.6 billion, and the interest payments will constitute AMD 141.2 billion.

AMD billion	Redemption	Interest payment	Total
Government treasury bonds	116.0 ²	62.3	178.3
Eurobonds	-	31.8	31.8
External loans	69.6	47.1	116.7
Total	185.6	141.2	326.8



AMD 20 billion of redemption amount of the government treasury bonds (AMD 116.0 billion) is planned for buybacks.

² The indicator includes AMD 20 billion planned for buybacks.

It is planned to pay AMD 116.7 billion (USD 241.5 million) for the redemption and servicing of external loans. The structure of the planned payments by lenders is as follows:

USD million	Interest payment	Redemption	Total
International Bank for Reconstruction and Development	21.4	1.4	22.7
International Development Association	24.0	47.0	71.0
European Bank for Reconstruction and Development	0.9	3.3	4.3
European Investment Bank	2.3	0.9	3.2
International Fund for Agricultural Development	0.5	2.1	2.7
OPEC Fund for International Development	2.3	3.3	5.6
Asian Development Bank	18.7	16.4	35.1
European Union	2.6	-	2.6
International Monetary Fund	-	28.9	28.9
Eurasian Development Bank	6.6	-	6.6
Germany (KfW)	4.6	7.0	11.6
Russian Federation	8.6	20.2	28.8
France	1.7	0.2	1.9
USA	0.4	1.8	2.1
Japan	2.0	10.0	12.0
Abu Dhabi Fund for Development	0.2	0.7	0.9
The Export–Import Bank of China	0.5	-	0.5
KBC Bank (Belgium)	0.04	0.6	0.6
Raiffeisen Bank (Austria)	0.1	-	0.1
Erste Bank (Austria)	0.2	0.2	0.4
Total	97.5	144.0	241.5

The 2018 expenditures for Eurobonds service will amount to USD 65.8 million, including coupon payments for the outstanding 2020 and 2025 bonds.

5. Government debt at the end of 2018

The Government debt of Armenia will constitute AMD 3,173 billion or 54.2 percent of the GDP at the end of 2018 according to the 2018 State Budget.

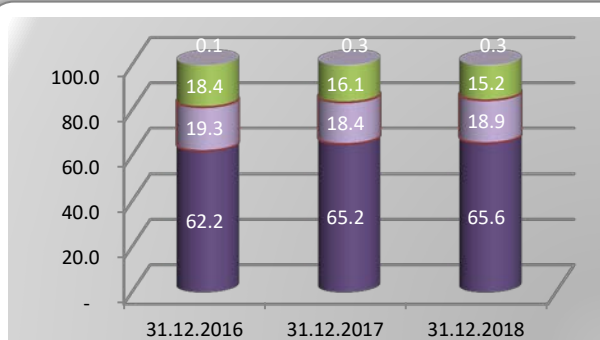
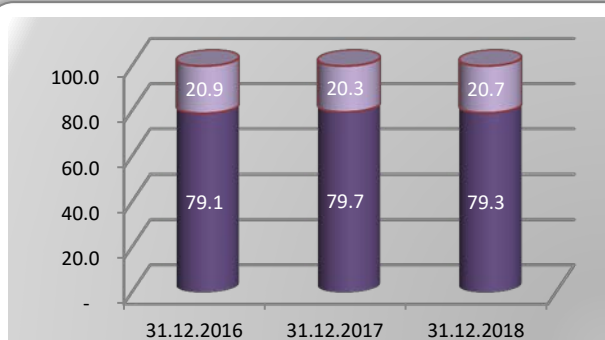
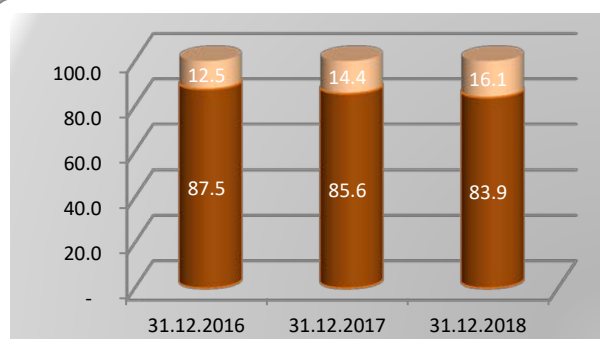
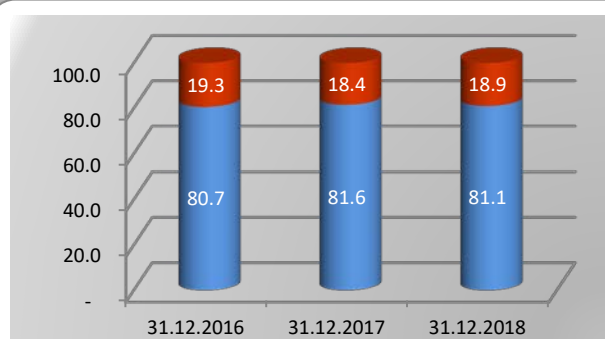
	As of end of 2018
Government debt, AMD billion	3,173
Government debt, USD million	6,568
Government debt, % of GDP	54.2

As a result of the implementation of 2018 Annual Borrowing Plan, the benchmark indicators will be within the frames set by the 2018-2020 MTDS and will deviate slightly from the forecasts made for 2018 by the Debt strategy.

	Benchmark	2018 (State Budget)	2018 (2018-2020 strategy)
Refinancing risk			
Average time to maturity	8 – 11 years	8.5 years	8.6 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%	14.2%	14.5%
Interest rate risk			
Share of Fixed Rate Debt in total debt	min 80%	83.9%	83.6%
Exchange rate risk			
Share of domestic debt in total debt	min 20%	20.8%	20.7%

In 2018 the weighted average interest rate of Government debt will be 4.7%. The government debt service payments will be 2.4% of GDP and 9.6% of the total expenditures of the 2018 State Budget.

As a result of the implementation of the 2018 Annual Borrowing Plan, the share of AMD denominated treasury bonds in the Government debt structure will increase up to 18.9%. The government debt will have the following structure:



As of end of 2018 the Government debt redemption profile will be scattered until 2054 and will have the following profile:

