Evaluation of Report of the Ministry of Finance of Republic of Armenia on Compliance with Conditions for First Tranche of EFSD Budget Support Credit

The Economic Policy and Structural Reform Framework, supported by the EFSD budget support credit, specifies 27 conditions, 16 of which are benchmarks and 11 - performance indicators. The Framework is focused on improving financial sustainability of the energy sector of Armenia by reducing risks of production shocks and enhancing transparency of calculation of losses in the energy sector; improving efficiency of the public finances management on the basis of greater transparency and higher quality social services; improving business environment through reducing administrative barriers, ensuring better access of private sector to financial resources based on a register of movable property, as well as enhancing exchange rate flexibility, lowering the level of dollarization and strengthening trust towards the financial system.

As of 1 October 2015 (deadline for evaluation of performance under the first tranche) all 16 conditions with a benchmark status, had been met, as well as 10 out of 11 performance indicators. One performance indicator had not been implemented: electronic publication of information materials describing details of a site development for construction purposes had not been posted on website. This failure was due to amendments made to the Law "On urban development", which require revision of some paragraphs of the Regulation for issuing construction permits. The above information will be posted after these modifications have been carried over into relevant regulatory documents. According to the Manager this non-compliance is clearly technical, and the breach of deadline will have no noticeable impact on the implementation of the Program.

Based on the evaluation results, the Manager recommends to authorize disbursal of the first tranche of the EFSD budget support credit to the Republic of Armenia in the amount of US$100 million.

Status of compliance with conditions for first tranche of EFSD budget support credit

PI-1 (Performance Indicator) Largest amount of arrears of distribution networks payable to generating companies must not exceed US$ 50 million.

Status: met

According to information provided by the Public Service Regulatory Commission at (as of 01/10/2015), the current level of debt of "Electric Networks of Armenia" JSC due to power producers and power supply service providers, amounted to 22434 million AMD equivalent of US$ 47.4 million at the CBA official exchange rate\(^1\). The amount of accumulated arrears was at a similar level.

This measure pursues the objective of gradual reduction of debts, built up by the distribution company, to generating utilities, as high debts create risks to the financial condition of power producers, which may require budget interventions to ensure stability of electricity supply.

BM-1.1 (Benchmark) Methodology of forecasting power production and consumption balance must be developed and approved.

Status: met

Methodology was approved by the Minister of Energy and Natural Resources of RA by the executive order of 05.05.2015 # 138-H.\(^2\)

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1 The official AMD/US$ exchange rate was 472.85/1.00 (01.10.2015).
2 Published on the website of the Ministry of Energy and Natural Resources: http://minenergy.am/storage/files/news/news_4231969966361_0_Hraman_138_N.pdf
This measure is focused on reduction of impacts of production-related shocks resulting from increased output of power production by facilities with the high cost of generation compared with forecasts, on financial results of distribution operators.

The adopted methodology provides a tool for forecasting the balance of production by types of facilities (primarily hydro-power and nuclear-power plants) in a conservative mode, based on estimated potential production of electricity in the upcoming year, rather than on the basis of maximum production capacity. It enables reduction of deviations of actual power production by generating facilities from the projected energy balance. It ensures more adequate calculation of electricity tariffs. The methodology also enables proposals on tariff revisions to be made more rapidly in the event of shortage of power generated by hydro- and nuclear-power plants. Such proposals may be made in case of deviations of actual output from the forecast targets by more than 5%.

**BM-1.2** Changes to PSRC regulatory documents must be developed and adopted with a view to increasing transparency of the power loss calculation technique.

*Status: met.*

PSRC adopted resolution # 224H "On approval of Regulation for calculation of power losses in transmission and distribution networks".1

This measure is aimed at eliminating conflicts of interest that arose in the past, when the distribution company acted as customer requesting services of calculating operational losses for itself. As a result, the adopted Regulation increases transparency of calculation of losses and pricing in the energy sector.

In compliance with the above Regulation, power transmission and distribution operators are required to ensure for the Settlement Center access to the electronic metering system, as well as to provide relevant data on agreed upon terms and conditions for carrying out requested calculations. The Regulation specifies the timeframe for the Settlement Center to deliver the results of calculation of operation-related power losses in transmission and distribution networks. Furthermore it is contemplated to conduct audits in cases of disagreement of the parties with the results of calculations.

**BM-II** National budget deficit by year-end must not exceed 3.5% of GDP in the context of IMF program.

*Status: met.*

Given the shortfall of tax revenue and emergence of unforeseen expenses for funding increased electricity tariffs, as well as to support the referendum on changing the constitutional framework in Armenia, the IMF agreed to expansion of the 2015 year-end budget deficit to 3.9% of GDP.

This measure aims at ensuring fiscal consolidation with a view to achieving sustainability of public debt, which as of 01.07.2015 was equal to 44% of GDP.

In the context of low rate of growth and emergence of additional expenditures, the budget parameters in 2015 deteriorated. By the end of the first six months of 2015 the national budget deficit totaled AMD 56.6 billion (2.8% of GDP), compared to a surplus of AMD 22.1 billion (2.7% of GDP) in 2014 and expanded by 0.7%, compared to Q1. Budget revenues grew by just 0.3% of the level of the previous year, whereas the expenditures - by 15.7%.

Proceeds from the key revenue items diminished, in spite of accelerated economic growth, from 2.7% in the first six months of 2014 to 3.9% during the reporting period. VAT and income tax revenues decreased by 5.8% and by 3.7%, respectively, relative to the level of the previous year, which demonstrated low business activity in taxable sectors and impact of changes in the tax policy. The latter included: abolition of the minimum income tax rate, reduction of sales tax rate, extension of deadlines for payments VAT in respect of goods imported from countries of the EEC and transition to the accrual method with regard of VAT. Excise duties grew according to inflation rates and the anticipatory growth of customs duties (+24.3%) was caused by the devaluation impact. Besides this, customs duties collected from the Eurasian Customs Union, were below expectations, which is due to the current decline in imports in EEC countries, especially in the Russian Federation.

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1 Posted on Web site of Armenian legal information system www.arlis.am
Additional expenses in the context of rising wages, have led to a significant increase in budget spending. Wage increases in the public sector resulted in a buildup of payroll expenditures by 28.4%. At the same time, additional expenses emerged in connection with higher electricity tariffs and the upcoming referendum on proposed constitutional changes. Capital spending growth was partly triggered by the disbursement of a budget support loan in the amount of US$ 200 million granted by Russia to support defense capacity of the country.

The authorities estimate the deficit at the year-end of 2015 to reach 3.9% of GDP, compared to 3.5%, as specified in the program of reforms. Given the requirement to maintain investment spending in the context of recession, the IMF agreed to increase the benchmark threshold for the budget deficit to 3.9% of GDP. According to the Technical Memorandum, the budget deficit should not exceed the amount agreed upon by the authorities of the Republic of Armenia with the IMF as part of its Extended Fund Facility program in Armenia. Despite the excess of the budget deficit over the level established in the Framework (3.5% of GDP), the Manager deems the budget deficit requirement to have been met, given its threshold approval by the IMF.

Mindful of the proximity to the national threshold of public debt, the Manager recommends to refrain from revising the budget deficit for the upcoming years upwards relative to levels foreseen in the latest review of the IMF. The Manager recommends locking in the Framework the proposed budget deficit thresholds for 2016 at 3.5% of GDP, and for 2017 – at 2.5% of GDP.

Expanded budget deficit generates risks to fiscal sustainability and requires government action to reduce them without further delay. The IMF estimates the level of budget deficit, stabilizing the debt in Armenia, currently is to be equal to 2% of GDP. As of 01/07/2015 the level of public debt was 44% of GDP, of which about 75% were external borrowings. Given the proposed budget deficit targets, the public debt will reach its threshold by 2017, which will require reduction of the deficit down to no more than 3% of GDP of the year, when the threshold was exceeded, as well as limitations to be imposed on external borrowing. The above limitations may have a negative impact on raising debt capital for financing infrastructure projects, and may require budget spending controls, which will adversely affect economic development and social expenditures.


Status: met.

The Government adopted Decree # 1493-H of 25.12.2014 which determines that effective from 04/01/2015 procurement for government institutions, as well as for local communities, shall be carried out in electronic format per open and simplified procedures and in accordance with framework agreements.

The Government adopted Decree # 527-H dated 21/05/2015, which requires effective from 13/06/2015 to extend e-procurement practice to negotiated procurement with prior publication of relevant procurement notices.

These measure are designed to mitigate corruption risks in public procurement, which will improve the efficiency of budget spending and contribute to budget consolidation.

According to the Global Competitiveness Report corruption is one of the obstacles to business development. Improved transparency will expand access of businesses to public procurement, which can also promote growth of investments.

BM-3.2. Chart of accounts for public sector organizations and appropriate instructions must be adopted along with a model accounting policy for organizations of public sector.

Status: met.

The Minister of Finance of the Republic of Armenia by his executive order # 207-H of 09/04/2015 approved the "Chart of accounts and user guidelines for public sector organizations";

The Minister of Finance of RA by his executive order # 457-H of 07/07/2015 approved the proposed model accounting policy for public sector organizations.

https://www.e-gov.am/gov-decrees/calendar/2015/05/page/4/

5Global Competitiveness Report 2015, World Economic Forum
These decisions are aimed at improving transparency of budget transactions and reducing expenditures for audits of public sector organizations. The new chart of accounts is based on international accounting standards and meets the requirements of the guidelines for public finance statistics and national accounts.

**BM-4** Regulatory framework must be developed for implementation of "one-stop shop" model and the package of key regulations adopted.

*Status: met.*

13 regulatory documents have been passed to enable implementation of the "one-stop shop" model, which regulate relations in the area of social policies and form the regulatory framework for provision of social services.

This model is focused on enabling regulatory framework for improving the quality of social protection and enhancement of service targeting. The proposed multifunction social service centers (see BM-5) will operate on the basis of the above regulations.

The most important provisions contained in the regulations relate to:
- Description of powers of local authorities in the area of social assistance;
- Identification of persons, classified as needy, procedures, types, amounts and conditions for granting social assistance to eligible groups;
- Administering inter-agency and international cooperation in the area of social support, defining strategic objectives and forms of joint social assistance programs;
- Model statutes of local agencies and divisions of social services, as well as regulations for establishing and keeping a register of social service providers.

**PI-4** At least 18 multifunction centers must be established and put into operation

*Status: met.*

18 multifunction centers have been established and are operational.

The above measure is focused on improving quality of social protection and enhancement of service targeting. Improved quality is ensured by simplified and accelerated procedures for filing applications and obtaining social assistance. Improved service targeting will be achieved by means of accumulation of comprehensive information on consumers of social services, which would enable more accurate determination of the kind of social support required for each applicant.

**BM-5.1** Modifications to Government regulatory documents and legislation addressing procedures for connection to power supply must be adopted.

*Status: met.*


This decree is aimed at reducing the time required to complete the procedure and number of procedures regulating the process of connection to power supply. It will reduce overheads of private sector companies involved in filing for connection to power supply and will provide impetus to a positive trend of investments.

As a result of the above measures the time required to review and approve an allocation of land for construction of projects involving persons licensed for transmission and distribution of electricity was reduced from 35 to 10 days. Simplification of licensing procedures attracts investments and will promote their growth, essential for RA, which has long been suffering from shrinking investment activities (since 2009). In the second quarter investments continued their decline, primarily, because of low budget spending performance. According to preliminary data for January-September 2015, no construction growth was registered, compared to the previous year, which does not allow to make a conclusion on the potential improvement in investment activities in the third quarter. The low investments carry risks of degradation of infrastructure and of slow pace of creation of new jobs, which, in the event of return of migrants from Russia, may result in increased poverty and unemployment.
**PI-5.2** Modifications to legal and policy documents of the Public Service Regulation Commission regulating procedures for connection to power supply must be adopted.

*Status: met.*

Pursuant to the Government Decree of 12/11/2015 the PSRC adopted resolution # 387-H of 25/11/2015 "On reduction of the time required to complete the procedures for connection to power supply".

This measure is aimed at reducing the time required to complete the procedure and number of procedures regulating the process of connection to power supply. It will reduce overheads of private sector companies involved in filing for connection to power supply and will provide impetus to restoration of the positive trend of investments.

The lead-time required for connection to power supply, resulting from the PSRC resolution, will be reduced to 35 days.

**PI-6** The time required for review and approval of construction permits must be reduced from 83 to 40 days and the number of procedures - from 19 to 10.

*Status: met.*

Regulatory documents have been adopted (see para. 6.1) to reduce the number of procedures from 19 to 9 and the time for obtaining construction permits for medium-hazard projects from 83 to 35 days.

This measure is aimed at simplifying construction-related procedures, which will contribute to restoration of positive trends in construction business.

In view of further reduction of construction activities in January-August, 2015, amid declining incomes of the population due to falling cash remittances from Russia, the above decision is extremely important among other measures to promote construction activities (tax breaks for co-funded construction projects). The above positive messages endeavor to attract investors back to the construction sector, which will not only ensure recovery of investment activities, but should also contribute to creation of new jobs. It is, however, noteworthy that the adoption of the law "On amendments and supplements to the law "On urban development" will be followed by revision of the Resolution of the Government # 596-H of 19/03/2015 (see para 6.1), which may result in an increase in the number of procedures and the time required for obtaining permits. The proposed changes to the legislation are aimed at ensuring secured rights (interests) of persons purchasing property in the process of construction, which will contribute to increasing motivation of stakeholders to start construction projects and will generate additional demand in the sector. Thus, the above legislation does not contradict the spirit of reforms. The authorities do not foresee any significant increase in the time required to complete the procedures and in the number of procedures to result from the above changes, and believe that the final procedural format will remain within the parameters specified by the Framework. The Manager requests to provide updated information on the number and the required time for obtaining construction permit in the Government report on compliance for the second tranche.

**BM-6.1** New policy regulating procedures for construction permits must be approved by a resolution of the Government of RA.

*Status: met.*


The purpose of this Resolution is to simplify and streamline construction-related procedures, which will also promote restoration of positive trends in construction business.

The new law brings together previous provisions regulating individual steps of procedures for obtaining construction permits, such as issuance of architectural planning specifications, design plan and specs, project due diligence, filing for project approval and construction permit, registration of final construction project and issuance of operation permit, as well as a regulation for issuing electronic permits.

**PI-6.2** Electronic publication of information materials describing details of site development procedures for construction purposes must be posted on website.
Status: not met.

The above publication is required for raising awareness of the developers about the construction-related procedures with a view to simplifying their business-processes and, thereby, attracting investors into construction.

Due to amendments made to the law "On urban development", some provisions of the Regulation for issuing construction permits are subject to revision. Accordingly, publication of information materials describing details of site development procedures for construction purposes should not be regarded as relevant at this time. The said publication will be prepared upon making the necessary modifications to the Regulation for issuing construction permits. The Manager requests to provide information on this item in the Government report on compliance for the second tranche.

**BM-7** The regulatory document regulating the system of registration of ownership rights to movable property must enter into force and the regulations – enacted.

Status: met.

The Law of the Republic of Armenia "On registration of secured rights to movable property" has entered into force. To ensure its implementation the Government amended 10 laws and 2 Codes. Pursuant to this law the Government adopted 8 resolutions and 2 decrees.

This measure is focused on providing regulatory framework for the establishment and implementation of a centralized registration system and electronic register of secured rights to movable property. At the same time the above register will facilitate pledging movable property as collateral. This will help to depress the cost of loans owing to reduction of the risk premium, since medium-sized businesses will be able to secure their debt service liabilities.

The main results of implementation of this measure are as follows:

- Legal and policy framework is in place for exercise of secured rights;
- Agency for registration of secured rights to movable property has been established;
- Inventory of data and data bases which are automatically updated in the register upon entering records of secured rights to movable property has been approved;
- Regulation on releasing information and extracts from the register of secured rights has been approved.

**PI-7** Register of ownership rights to movable property must be established

Status: met.

On 1 October 2015 the proposed electronic register of secured rights to movable property was launched.

This measure is aimed at enabling pledging movable property as collateral, which will improve access of SMEs to financial resources.

In 2014 limited access to sources of funding was pointed out by some executives as one of the key impediments, which hamper development of business. Tighter monetary policy resulted in 2015 in reduced lending to the economy. If in January-September 2014 lending at a fixed exchange rate grew by 7.1% (+5.7% for loans in drams, + 7.9% for loans in foreign currency), over the same period in 2015 loans granted dropped by 5.3% (-7% for loans in drams, -4.3% for loans in foreign currency).

**BM-8.** Inventory of tax reports and statements filed to tax authorities in hard copy must be completed, TORs must be compiled to specify programming of tasks for accepting accounts and statements in electronic format.

Status: met.

By 01/10/2015 inventory of documents submitted on paper had been completed, and terms of reference had been prepared for filing of these documents in electronic format. The only exception is about forms of statements and reports for environmental charges, which is justified by the planned revision of the said forms and expected adoption of relevant laws and regulations.
This measure is aimed at minimizing direct contact between taxpayers and public authorities with a view to reducing corruption risks.

Adoption of electronic filing of tax declaration should also help to cut administrative and procedural overheads. Movement toward adoption of electronic filing does not apply at this time to environmental taxes, which are associated with relatively high corruption risks. Given the high corruption risks involved in environmental taxation, the Manager recommends to accelerate the process of adoption of new forms of reporting on environmental taxes with a view to ensuring comprehensive coverage of all tax liabilities by electronic filing procedures.

**PI-10.** Road network development strategy must be adopted and budget-funding request must be prepared based on the strategy.

*Status: met.*


This measure is aimed at improving the accuracy of identification of road sections subject to maintenance, based on the actual pavement condition and traffic intensity. It will facilitate maintaining the infrastructure and improving effectiveness of budget expenditures.

In addition, inclusion of community roads into the maintenance schedule will contribute to increasing availability of transport links to all regions of Armenia. Some of the tasks, proposed by the Strategy, are already being implemented: traffic surveillance cameras have been installed on motor roads (para 2); schedule for inspection of road pavements on international, inter-regional and local road networks has been prepared (para 5).

**Measures aimed at increasing flexibility of exchange rate, reduction of dollarization and improving trust towards financial system**

**PI-III** Inflation must be within target range of 4% ± 1.5%.

*Status: met.*

According to the Central Bank, the 12-month inflation rate was within acceptable limits of 4% ± 1.5 percentage points and amounted to 3.3% as of the end of September.

This policy is aimed at curbing inflation and facilitating inflation targeting. Measures of monetary policy enabled stabilization on the domestic market, including foreign currency one. Inflation, after an upsurge in March 2015 to 5.8% in annual terms, dropped to 3.2% in September due to a decline in food prices. However, the above high inflation-induced volatility carries risks to compliance with this requirement in the context of high dollarization and persistent devaluation expectations.

**PI-11.1** Foreign currency interventions must be undertaken exclusively for leveling off sharp fluctuations of exchange rate.

*Status: met.*

According to the CBA, since the second quarter interventions to uphold the exchange rate have been significantly reduced. The interventions in August were required to respond to dramatic devaluation of the Russian ruble exchange rate.

This measure aims at increasing the exchange rate flexibility and enhancing its resilience to external shocks, as well as protecting the GIR, which had decreased by the end of 2014 to 3.27 months of imports, as compared with 5.04 months of imports at the end of 2013.

With a view to stabilizing the foreign currency and money markets the CBA has undertaken vigorous steps to tighten monetary policies: the reserve requirement has been increased from 13% to 24%, the CBA rate on Lombard loans has been raised from 8.25% to 21%. In addition, a ban was imposed on averaging reserve requirements by banks. The Central Bank policy has alleviated pressure on the exchange rate and allowed to limit the devaluation by 20%. It also mitigated emerging panic on the market. In the second quarter of 2015 interventions to support the exchange rate were reduced
It enabled the CBA to proceed with monetary policy easing by cutting interest rates on liquidity instruments. The GIR level at the end of the first semiannual period increased to 3.72 months of imports.

Nominal devaluation of AMD in the beginning of the year could not completely eliminate the need for interventions. The exchange rate policy, focused on maintaining the national currency in the context of high devaluation expectations, and the current uncertainty in respect of the Russian ruble, currency of the principal foreign trade partner of Armenia, requires further interventions. This was demonstrated by significant weakening of the Russian ruble in August 2015, resulting in resumption of interventions by the CBA, after it had reduced them in the post-second quarter period of 2015. The weaker Russian ruble in the context of current exchange rate policy carries new risks for the stability of AMD and integrity of the international reserves. The Manager recommends speeding up the process of transition to full-scale inflation targeting in order to reduce the risks of losses of international reserves.

**PI-12** The scope of dollarization, measured in terms of loan portfolio of banks, must not exceed 67.5%.

*Status: met.*

According to the CBA, the level of dollarization of the loan portfolio of banks as of 04.10.2015 amounted to 66.4%. The level of dollarization of all loans provided is 65.6%

This measure is aimed at reducing the scope of dollarization in order to enhance the effectiveness of monetary policy instruments.

Despite the smaller-scale reduction of loans extended in foreign currency, as compared to those in national currency, the level of dollarization, in fact, decreased, if compared with the greater share of foreign currency loans in the beginning of the year. After the level of dollarization stabilized at around 62% in 2013-2014, in November 2014, triggered by the devaluation of the Russian ruble, it picked up its growth and quickly reached 67.5% in the beginning of 2015. The Central Bank measures focused on maintaining higher rates of reserve requirements for funds, borrowed in foreign currency, and reserve thresholds for potential losses in foreign currency assets, as compared to those in national currency, somewhat reduced the dollar content in the loan portfolio of banks, which as of 04.10.2015 was equal to 66.4%. According to the assessments made by the Manager on the basis of aggregated statistical data, the level of dollarization was also found to be at 65.6%.

Despite some progress, the level of dollarization remains high and its future reduction will be problematic. The high level of deposit dollarization, if it remains at 70%, will hamper efforts to efficiently reduce it. To mitigate the impact of this factor, the AMD deposit base should be enlarged, which implies the need for improved confidence in the banking system. Furthermore, the key factor of dollarization, i.e. high volatility of the Russian ruble, will retain its importance. The high interest rates on national currency loans will also restrain the efforts to reduce dollarization. Their potential decrease in the current context is contingent not only on the adopted monetary policy, but also on structural reforms to eliminate information asymmetry.

**PI-12.1.** For foreign exchange assets, to be provided to borrowers engaged in export operations and compliant with relevant criteria, the risk weights set for similar assets in drams should be applied.

*Status: met.*

According to the decision of the Board of the Central Bank of the Republic of Armenia to approve the "Regulation on banking: Prudential standards of banking activity" (# 39-H of 09/02/2007), foreign currency assets, granted to borrowers engaged in export operations and compliant with certain requirements, the risk weights established for similar assets in drams should be applied.

This measure is aimed at ensuring availability of foreign currency loans for exporters, which will reduce the burden of overheads involved in de-dollarization activities for businesses generating export earnings.

**BM-12.2.** Higher thresholds must be fixed on reserves for potential losses on assets in foreign currency.

*Status: met.*

In accordance with the "Regulation on classification of loans and receivables of banks, operating in the Republic of Armenia, and on formation of reserves to cover potential losses" (# 63, 23/04/1999),
the reserve requirement established for potential losses in foreign currency assets must exceed the relevant provision in the national currency by 20%.

This measure aims to create incentives for the Armenian banks to lend in local currency, which should help to reduce the current dollarization of assets.

**BM-12.3.** Higher rate of reserve requirement must be maintained for assets borrowed in foreign currency.

*Status: met.*

In accordance with the decision of the Board of the Central Bank of Armenia to approve the "Regulation on banking: Prudential standards of banking activity" (# 39-H of 09/02/2007), the rate of reserve requirement must be set at 2% for AMD assets, and for foreign currency assets - at 20%.

This measure aims to create incentives for the Armenian banks to lend in local currency, which should help to reduce the current dollarization of assets.

**BM-13.1** The period, during which depositors may claim recovery of their guaranteed deposits, if the bank is found to be insolvent, must be increased.

*Status: met.*

The draft law of the Republic of Armenia "On guaranteeing compensations of bank deposits for individuals" (adopted by the National Assembly in the second reading on 26/10/2015) provides that the period, during which depositors, after the his/her bank is found insolvent, may claim indemnification of the guaranteed contribution, shall be extended from one to three years as from the date of occurrence of the insurance event.

This measure is aimed at attracting bank deposits by extending the guarantee periods, which should help increase deposits by migrants working abroad, who may have limited timeframe for staying in Armenia.

**BM-13.2.** The time required to start the process of recovery of guaranteed deposits must be decreased.

*Status: met.*

The draft law of the Republic of Armenia " On guaranteeing compensations of bank deposits for individuals " (adopted by the National Assembly in the second reading on 26/10/2015) provides that the Deposit Guarantee Fund shall be obligated to pay compensations upon demand filed by the affected depositors, starting on the 20th banking day after the date of occurrence of the insurance event, as compared with the current requirement of the 30th banking day.

This measure is aimed at encouraging bank deposits by reducing the time to the date of availability of the guaranteed deposit funds. It reduces the risks of limited availability of funds for depositors.

**BM-13.3.** Guarantee of deposits belonging to the same depositor must be ensured in case of merging the banks.

*Status: met.*

The draft law of the Republic of Armenia " On guaranteeing compensations of bank deposits for individuals " (adopted by the National Assembly in the second reading 26/10/2015) provides that deposits belonging to the same depositor, in the event of merging the banks, shall be treated as separate deposits up until expiry of their terms.

This measure is aimed at restricting the outflow of deposits from banks, which may become targets of mergers and acquisitions. In view of the requirements of the CBA to ensure higher capital adequacy ratio, enlargement of banks through mergers may will be expected. Implementation of this measure will reduce the risks of erosion of deposit base in such banks.

**BM-13.4.** Thresholds must be increased for guaranteed deposit amounts.

*Status: compliance acknowledged.*
The draft law of the Republic of Armenia " On guaranteeing compensations of bank deposits for individuals " (adopted by the National Assembly in the second reading 26/10/2015) provides that guaranteed deposit threshold amounts shall be increased to ensure coverage for guaranteed AMD and foreign currency deposits from 4 million to 10 million and from 2 million to 5 million, respectively.

This measure is aimed at boosting inflow of deposits by increasing the size of their insurance coverage. Increased coverage thresholds of deposits should improve confidence in the banking system, which will contribute to expansion of the deposit base.